SBA'S LEGISLATIVE PROPOSAL

HEARINGS

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

WASHINGTON, DC, APRIL 28, MAY 4, MAY 11, MAY 17, MAY 18 AND MAY 25, 1994

Printed for the use of the Committee on Small Business

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SBA'S LEGISLATIVE PROPOSAL

THURSDAY, APRIL 28, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The Small Business Committee will come to order.

This morning we are having a hearing on two basic bills, H.R. 4297, which I introduced at the request of the administration, which provides specific program levels for the SBA's major programs for the next fiscal year.

I have also introduced at the administration's request H.R. 4298, a bill dealing with prepayment penalties.

[H.R. 4297 and H.R. 4298 may be found in the appendix.]

We have advanced the time of this hearing this morning because upon completion of it we are going to have a hearing on H.R. 4623, the Small Business and Minority Small Business Opportunities Act of 1994.

I ask unanimous consent from the Members that my entire opening statement be considered as read and put into the record at this point in time. No objection. So ordered.

[Chairman LaFalce's statement may be found in the appendix.]

Chairman LAFALCE. Does anybody else have an opening statement?

Mrs. MEYERS. Very brief, Mr. Chairman. Thank you for recognizing me and for calling today's hearings, and my thanks to Ms. Pulley for joining us, to illuminate the agency's proposal.

I know we are under severe time constraints so we are going to outline a couple of concerns and hope that Ms. Pulley can aim some of her remarks in that direction.

It was just over 2 months ago that Administrator Bowles presented the President's SBA budget proposal to the committee. Since that time, the request for direct loan authority has jumped from nothing to $133 million or by 100 percent. The proposal for guarantee loans has skyrocketed, by $2.6 billion or 23 percent.

I am very curious about these increases and I am surprised to see direct loans wiggle their way back in.

While I am pleased the SBA's package seeks permanent statutory authority for the Office of Women's Business Ownership, I am concerned that other programs designed to help businesswomen are not specifically mentioned for funding. The number of women-owned firms blossomed by about 60 percent in only 5 years last decade, and the rate continues.

Still, the overall number of women-owned businesses remains low. These intrepid entrepreneurs face all the problems male-owned firms do multiplied by 10, according to my unscientific reckoning. I wonder if we are doing enough to help them overcome the very special problems they encounter when trying to create or expand their enterprises.

The SBIC Program and the individual SBIC's that make it run have done yeoman's work in financing still. The program may rack up another $300 million in losses.

True, Mr. Bowles promised reforms for the program but I doubt it is wise to double the size of that program until we absolutely know the corrections will protect the taxpayers.

I appreciate the administrator's desire to collect fees for the services the agency performs. I remain uncomfortable with the open authority to raise or create them without any guidance from this committee or from Congress.

A similar principle applies to the "such sums as necessary" language for the salaries and expenses account, which funds such basic services as small business development centers. I would much prefer to see some hard numbers that could elucidate the SBA's intention.

Finally, I missed seeing any reference to the Office of Advocacy, the frontline of defense for small businesses against inobtrustive regulations. There are about 1,400 Federal agencies, departments, commissions, boards, and committees out there just looking for something to do, and they usually find it. The Office of Advocacy is there to make sure small enterprises get a fair shake out of them, and we simply must make every effort to arm and invigorate that office.

At this point I would like to hear Ms. Pulley's comments on each of those, Mr. Chairman.

Thank you.

Chairman LaFalce. Thank you very much, Mrs. Meyers.

I am going to proceed out of order. This is a bit unusual, but I see that we have a candidate for Congress in the year 2020 sitting up here, and I wonder if this young lady would like to introduce herself, tell us her name, and tell us what she thinks of Congress.

Mr. Manzullo. This is my daughter. She is here especially for taking your daughter to work today. I brought my two sons also.

Katie Manzullo. Katie.

Chairman LaFalce. Where are the two sons?

Mr. Manzullo. My son Neal is over here.

Chairman LaFalce. Come on up, people. You can sit in one of the chairs too.

Mr. Manzullo. The other one is back in the office reading. He is going to be the congressional candidate.

Chairman LaFalce. If any of the Manzullos have any comments they would like to make, I will introduce them now.

Mr. Manzullo. Thank you, Mr. Chairman.

I am thankful for the opportunity to continue the dialogue with the SBA. I appreciate the fact that somebody from the SBA called our office last week and asked us in advance if there were any suggestions or inquiries we would have so that SBA could be more prepared than it normally is. Of course, you are always well prepared when you come here.

My query back then deals with the threshold levels at which the agency determines whether or not a business is eligible to receive funding for an SBA loan.

We had a particular situation in our congressional district where a company that is in the business of selling boats, both on the Rock River and on the Mississippi River, had sustained particular economic damage as a result of floods that came this past spring.

You may be aware of the case. Because the company grossed I believe it was more than $5 million. It was not eligible to receive SBA funding. Subsequently, by regulation I believe that figure was lifted to $7,500. The anomaly in it is the fact that a used car dealer has one threshold, a new car dealer has another threshold. We had a very difficult time dealing, along with the people in the SBA who scratched their heads along with us, as to the rationale for those threshold funding limits.

If during the course of your comments you could keep that in mind and perhaps bring that out, that would help, because that problem is common to almost everybody dealing with SBA loans.

Thank you very much.

Chairman LAFALCE. Do any other members of the panel have statements they wish to make?

Mr. KNOLLENBERG. Mr. Chairman, in the interests of time I will submit, with unanimous consent, a more extended series of remarks. I want to welcome the panel and look forward to the testimony.

Thank you.

Chairman LAFALCE. Without objection, so ordered.

[Mr. Knollenberg's statement may be found in the appendix.]

Chairman LAFALCE. Anybody else?

We will then go to the panel. I think we have at least two firsts here. I think Deputy Administrator Pulley, this is your first appearance before at least this committee. Did you have to testify before the Senate, in your confirmation hearings? I don't know if you have been back subsequently before authorization.

Ms. PULLEY. Yes.

Chairman LAFALCE. I believe this also marks the first time that Mary Jean Ryan is before the committee. You are head of the Finance Office, are you not?

Ms. RYAN. Yes, sir.

Chairman LAFALCE. You replaced Chuck Hertzberg, is that correct?

Ms. RYAN. I am the associate deputy administrator for Economic Development, which is over Finance and Training, Technical Assistance. John Cox is actually an associate administrator, which would have been Chuck Hertzberg's direct counterpart.

Chairman LAFALCE. I see. Very good.

Greg Walter, as I understand, Larry Rosenbaum retired and you are the acting comptroller?

Mr. WALTER. Yes, sir.

Chairman LAFALCE. I think this is your first appearance before us, Ms. Ryan. Is this your first appearance?

Mr. WALTER. I was here before the committee testifying on the budget, Mr. Chairman.

Chairman LAFALCE. Well, we are delighted to have you.

Ms. Pulley, why don't you go ahead. We will put the entirety of the your statement in the record at this point in time, and you may read it or summarize it as you wish.

TESTIMONY OF HON. CASSANDRA M. PULLEY, DEPUTY ADMINISTRATOR, U.S. SMALL BUSINESS; ACCOMPANIED BY MARY JEAN RYAN, DEPUTY ADMINISTRATOR FOR ECONOMIC DEVELOPMENT, AND GREG WALTER, ACTING COMPTROLLER

Ms. PULLEY. Thank you.

Mr. Chairman, Mrs. Meyers, members of the committee, thank you very much for inviting me to testify today on the Small Business Administration's proposed legislative initiatives.

I am pleased to have the opportunity to describe this package, which reflects the administration's budget request for fiscal year 1995 and allows us to carry out our vision of the future for the SBA.

Accompanying me today are Mary Jean Ryan, Deputy Administrator for Economic Development; Greg Walter, our Acting Comptroller, and three of our daughters who came with me today, Hope Fisher, Gabrielle Hernandez, and Rena Hernandez.

As you know, the authorizations levels that we are recommending for fiscal years 1995 through 1997 will permit the programs to continue to grow as a steady pace. At the same time, be assured we will work closely with OMB and the Congress to ensure that the agency has sufficient funding to obtain a work force that can administer the loan programs effectively and safeguard the taxpayers' money.

To summarize, under Public Law 103–81, Congress provided us the authority to: First, reduce the guarantee on PLP loans to 70 percent; second, reduce the guarantee on real estate loans over $155,000 to 75 percent; third, impose a .4 percent annual fee on the outstanding balance of all loans sold in the secondary market; and fourth, impose a 50 percent fee on the position of the secondary market sales premium above 110. These changes had the effect of reducing the subsidy rate from 5.21 percent to 2.15 percent.

I would like to outline these initiatives and then I will be happy to answer any questions.

Sections 101 through 104, the SBA's proposed bill, would amend the SBA's present authority to operate our successful Microloan Program under which the SBA provides loans for startup or expanding small businesses. Currently, under the SBA's Microloan Program, we make direct loans to nonprofit intermediaries, which in turn makes loans and technical assistance available to small businesses.

The proposed legislation would permit SBA to guarantee up to 100 percent of loans made by selected participating lenders to 10 urban and 10 rural intermediaries. We believe the guarantee pilot will be valuable for several reasons. Changing the program from a direct loan to a guarantee loan will allow the agency to match its funding with the way intermediaries fund small business borrowers.

SBA would be able to provide a revolving line of credit to an intermediary for the first 5 years of the loan, which will allow intermediaries to build their portfolios and income streams during their first 5 years of program participation.

The SBA will realize a significant cost savings as guarantees require less administrative effort than direct loans.

Finally, we believe that the guarantee will help to involve traditional lenders in microlending in their communities and establish a connecting link from microloans to traditional loans for the small business owner.

We are also requesting support to allow the agency to approve loans made by intermediaries by groups of lenders. This will encourage smaller lenders to join together to make large loans to intermediaries.

This is particularly important in communities where a single lender may not have the capacity or the inclination to lend to an intermediary, but a consortium of lenders through pooled funding could make a strong investment in the community.

We also would like to bring the Microloan Program to areas of the country that are currently not served. To do this we will raise the cap on the number of intermediaries from 110 to 200.

We will remove the limits on the number of intermediaries in individual States and raise the limitation from $2.5 to $5 million in loans made to any State and raise the maximum dollar limit on individual lenders from $1.25 to $1.75 million in order to allow program growth in States with very active borrowing communities.

Two of our main objectives for fiscal year 1995 are to continue revamping the SBA's export working capital guarantee program, currently known as the export revolving line of credit, and to improve delivery of export assistance to the business community through U.S. export assistance centers.

The new Export Working Capital Guarantee Program will offer preliminary commitments for exporters, additional incentives for lenders to use the program, and streamlined forms and documentation for both lenders and exporters.

We are harmonizing our Working Capital Program with that of the Eximbank to eliminate overlap, waste or duplication. This initiative will make export financing more accessible to our small business customers.

Section 201 of our bill would amend the Small Business Act to increase to 90 percent the maximum guarantee coverage available to a participating lender for an export working capital loan.

Increasing export loan coverage to 90 percent in all cases will make our program consistent with Exim's Working Capital Guarantee Program as well as the Export Finance Programs of most States.

Section 201 of the SBA's bill would eliminate the present statutory prohibition on international trade loans of $155,000 or less. The SBA has been precluded from financing exporters who may meet all of ITL Program criteria but for the fact that the loans requested are too small.

Section 202 of the bill would provide authority for the SBA to guarantee stand by letters of credit which are a common feature of many international sales contracts, and are intended to ensure performance of exporters with whom a foreign buyer may have little or no experience. This proposal would also limit the present statutory language which limits the lines of credit to 3 years.

Section 203 of the bill would eliminate the present $250,000 cap on working capital loans made under the SBA's ITL Program. The change we recommend would result in a much more flexible program which is consistent with the needs of our constituency.

Section 301 of the bill would improve the SBA's Small Business Procurement Program by amending the authority for SBA's procurement automated source system to provide for the capture of information on all businesses. Such a change would permit the SBA to capture information on the 4,000 or so large businesses that are available to do business with the Federal Government as well as information on nonprofit institutions, including historically black colleges and universities and minority educational institutions.

The inclusion of this information would make PASS the single basic file of all those interested in obtaining Federal contracts, thus eliminating the need to maintain separate solicitation mailing lists at each Government buying office.

The SBA's Office of Women's Business Ownership has operated exclusively under the authority of Executive Order 12138 since its implementation in 1979. Section 401 of our bill would amend the Small Business Act to permanently establish within SBA an Office of Women's Business Ownership.

Title 5 of the SBA's bill makes a number of reauthorizations and technical changes in the Small Business Act and the Small Business Investment Act. I will mention only the most significant of these changes in my remarks. The rest are in my written testimony.

Section 501 of the bill would provide a permanent authorization of the SBA's authority to conduct cosponsorships with for-profit entities. SBA was given specific authorization to cosponsor training activities with for-profit entities in 1984. Since that time, the authority has expired and been renewed three times. Permanent authority would permit the program to operate in a more orderly fashion and facilitate long-range planning that would benefit SBA's customers.

Section 502 of the bill would provide a permanent reauthorization of the SBA's Preferred Surety Bond Guarantee Program. The authority for this program expires on September 30, 1994. The pilot program was established to encourage the larger surety companies to expand their efforts to help small businesses obtain bonds.

Under this pilot program, sureties have the authority to issue, monitor and service bonds guaranteed by the SBA without the SBA's prior approval. This delegation enables the agency to conserve administrative resources.

For fiscal year 1995, SBA has proposed to convert 100 percent of the Surety Program to the Preferred Program. This conversion allows SBA to expand surety bond guarantees to the small business community and to continue the operation of the program with greatly reduced SBA resources.

Section 503 of the bill eliminates a technical restriction on the employment of temporary employees in conjunction with the SBA's

Disaster Assistance Program. This legislative proposal will give the SBA the ability to employ temporary personnel without the current statutory ban against paying temporary employees per diem in excess of 6 months for any one disaster.

In June, we will mark the 6-month point after the Northridge earthquake in Los Angeles. The magnitude of our efforts in California is unprecedented and the need is clear. As of April 25th, SBA has conducted 455,610 interviews of disaster victims and issued 443,594 loan applications.

We have already approved 40,843 loans with a value of $1.2 billion. We have 3,120 staff members working exclusively on the disaster program, on the ground in Los Angeles and the Sacramento disaster assistance office and in other locations.

Key temporary employees dispatched in California to help address acute needs will be forced to leave unless this statutory provision is amended.

Attached to my statement is a chart detailing our proposed authorization levels for the next 3 fiscal years. We are not requesting funding for any direct loan programs which carry a subsidy rate of 10 to 15 times higher than that of our guarantee programs.

I believe the amount that you were talking about, Congresswoman, is for the existing authorization on the MESBIC Program. It has already been authorized. We are not changing that. It is already in existence.

The request for budget authorization to support the financial assistance program at the SBA is based on our desire to provide full support to the President's initiative of alleviating the credit crunch. Demand for the SBA loan programs has been increasing each year from a fiscal year 1991 level of $4.1 to $5.6 billion in 1992 to $6.4 billion in fiscal year 1993 to a projected $7 billion in fiscal year 1994.

We are requesting authorization for $9.3 billion for a program in fiscal year 1995 to meet the demand for existing programs and the anticipated demand for the new initiatives.

In fiscal year 1996, we are requesting authorization of $10.9 billion and $14.1 billion in fiscal year 1997.

The SBA's Development Company Programs represent another area whose demand has dramatically increased over the past few years. Approvals in fiscal year 1991 were $475 to $665 million in 1992, and $852 million in fiscal year 1993. Our fiscal rear 1994 appropriated level is $1 billion and at the current rate of approvals, that level will not be sufficient to meet our customer's needs. In fact, we will shortly be sending a letter to the committee requesting an increase to $1.5 billion and requesting a reprogramming of other program funds.

A $1.5 billion guarantee level in fiscal year 1994 will result in total financing of $3.95 billion. We are requesting authorization of the 502 and 504 Programs at $2.2 billion in fiscal year 1995, $3.6 billion in fiscal year 1996, and $5.4 billion in fiscal 1997.

As I mentioned earlier, we want to move to a guarantee program for microloans. We are requesting authorization for microguarantees at $110 million in fiscal year 1995, $175 million in fiscal year 1996, and $250 million in fiscal year 1997.

The small business investment company program is an important source for small businesses. During this past year, the program has strengthened by the development of a new participating security which will allow SBIC to secure patient capital to match their long-term venture investments.

This new program structure will significantly increase the flow of private capital into the program. Although Public Law 102–366 provides authorization for the SBIC and SSBIC Programs through fiscal year 1997, the levels in that statute do not adequately reflect anticipated demand, and we are therefore proposing increased levels.

The requested level for the SBIC Program for fiscal year 1995 is $848 million. For fiscal year 1996, $1.4 billion. For fiscal year 1997, $2.1 billion.

The surety bond program remains one of our most popular programs and has an historically low loss rate of about 2 percent. Our fiscal year 1994 appropriated level is $1.8 billion. This request supports the same level for fiscal year 1995.

Final bond approvals were $1.1 billion in fiscal year 1991, $1 billion in fiscal year 1992, and $1 billion if fiscal year 1993. We are requesting only a slight authorization increase due to the trends in the construction industry and the available surety markets.

Also, we are experiencing a steady growth in the usage of the preferred surety bond program which provides a 70 percent as compared to a 90 percent guarantee in our existing program.

The requested level will enable a significant leveraging of Federal funds for the SBA to provide small businesses the opportunities to obtain bid, performance, and payment bonds.

We have also sent to the committee a second piece of legislation that is designed to relieve the onerous prepayment penalties currently imposed upon borrowers under SBA's now defunct 503 development company loan program.

The 503 loan program began in 1981 at a time when interest rates were much higher. The program provided long-term fixed rate financing for businesses needing to acquire industrial or commercial buildings and to buy machinery and equipment. Currently about 3,600 of the 4,900, 503 loans remain in existence, some with interest rates as high as 15 percent.

The prepayment penalties prevent many borrowers from refinancing at today's lower rates. The SBA's proposal replaces the 503 prepayment penalty with the 504 penalty or gives borrowers the option to refinance their loans through the SBA's 504 Program, the 7(a) Program, through private lenders or with personal sources.

The agency will make the new prepayment opportunity available first to those borrowers who are paying the highest interest rates on their 503 loans. SBA has requested $30 million in its fiscal 1995 budget to offset the prepayment interest differential between the 503 penalty and the more reasonable 504 penalty. This money will be forwarded to the U.S. Treasury by the agencies as the 503 loans are prepaid.

If 503 small business borrowers are allowed to refinance their loans at today's lower interest rates, they will have more resources available to expand their businesses and create more jobs, thus providing a boost to the overall economy.

Mr. Chairman, I believe the legislative proposals I have presented today will strengthen SBA's Programs and better serve the small business community. Thank you very much for the opportunity to testify.

[Ms. Pulley's statement may be found in the appendix.]

Ms. PULLEY. Shall I stop for all questions or address Congresswoman Meyers' points right now?

Chairman LAFALCE. Why don't you address Congresswoman Meyers' points.

Ms. PULLEY. Mrs. Meyers, I believe the first issue was the question of direct loans. I believe I addressed that in my statement.

Chairman LAFALCE. No, I——

Ms. PULLEY. Basically, the only direct loan that is in our authorization proposal is the MESBIC Direct, which was previously authorized. It is authorized through 1997.

Mrs. MEYERS. That isn't what I asked. I know it was previously authorized, and that it has been in existence. It is that when Administrator Bowles came up here a few months ago or a couple of months ago, he said he was not going to request any money for direct loans.

Ms. PULLEY. We have not. We have requested all of our loan programs—the guarantees are Microloan Program, the Veterans' Loan Program, the Handicapped Assistance Program, are all rolled into the 7(a) guarantee program.

Mrs. MEYERS. Well, go ahead, then, and talk to the rest of these, because—I have a sheet that talks about direct loans under minority SBIC, the President's request was zero, and this request at this time is $23 million. Microloan direct loans, the President's request was zero, and this is $110 million.

Ms. PULLEY. That is the authorization level, not the budget authority level.

Mrs. MEYERS. That was the President's request. That was in an earlier budget, the President's request.

Chairman LAFALCE. I think Mrs. Meyers has a point, Ms. Pulley. I think it is in the authorization but not in the budget. Assuming the authorization is approved, at some point in time it would have to be in the budget.

Ms. PULLEY. We are requesting an authorization for guarantee level of up to $110 million——

Chairman LAFALCE. Are those for direct loans?

Mrs. MEYERS. These are direct.

Chairman LAFALCE. The minority SBIC and the microloan——

Ms. PULLEY. Perhaps if you have attached a copy of my written statement which has our proposed authorization levels through fiscal year 1997, I think is perhaps the best document to work from. It was attached as a chart. If you don't have one, we have one here we can give to you. Do you have a copy?

If you note at the top in fiscal year 1995 we have zeroed out all of the direct requests, and if you move down to the bottom section, we are requesting authorizations for all guarantees.

Mrs. MEYERS. You are changing, now, with microloans, to a guarantee program instead of a direct program.

Ms. PULLEY. Yes, ma'am. In all of our programs.

Mrs. MEYERS. That explains why we are calling that Microloan Program a direct, and you are calling it a guarantee. But I still don't understand—there were no MESBIC Directs in the President's budgets.

Ms. PULLEY. No. We are not requesting budgetary authority. This is the authorization level which was previously approved. We are not requesting to rescind the previous approval. We are leaving simply what was there there, as authorization. We are not requesting any budgetary allocation for that.

Mrs. MEYERS. OK. Go ahead. I just can't quite understand——

Chairman LAFALCE. Why don't we go on to the next one.

Ms. PULLEY. Regarding the funding of women's business ownership, we would have liked to have been able to request funding for the women's demonstration project at the level of 1994 or perhaps even request an increase. In an attempt to try to deal with the President's efforts to reduce the deficit and live within budgetary restraints, we did have to make some decisions. We did reduce the funding request for that office.

What we have done in an effort to still increase our efforts to assist women-owned businesses is to establish some programs that will address women-owned businesses at a different level.

We have in place a pilot program to prequalify women-owned businesses for SBA loans. The pilot program is being established in 11 cities around the country.

In addition to that, we are working now on designing a program, a pilot program for women-owned businesses for Federal procurement. These are programs that we can develop and operate without additional budgetary authority, which will still address the issues of assisting women-owned businesses.

Again, unfortunately, we would have liked to have been able to increase the women's demonstration project, but we simply had to make a decision which programs we had to cut to get down to our budget authority.

In terms of the Small Business Investment Company Program, you are absolutely right, there have been a number of problems in that program. We have had losses. What we have done is brought in an entire new management. We have a very experienced private sector investment person who has come to join us, who came with us in January who has begun to overhaul the whole system.

Thanks in part to the efforts of this committee, we have a new participating security which will address some of the issues that were outstanding in the program that allowed the program to have the kinds of portfolio it has.

We would be doing larger deals which will attract more sophisticated investment. Managers will be able to do more sophisticated projects. We have stricter licensing criteria. We have established a senior-level licensing committee to review each application.

To say that it is completely fixed, no, it isn't, but we are in the process. We have made a tremendous number of steps to improve the SBIC Program. We believe it is a valuable part of our program to provide financing to small businesses. We think that we will be able to correct the problems that are there.

That doesn't alleviate the portfolio that we have; we simply have to work through it. We are doing that as diligently as we can.

In terms of our existing portfolio, what we have done is to step up examination. For example, each company in each SBIC in our portfolio is now subject to regular examinations. One of the things we found when we got there was that examinations of SBIC's were very sporadic. Sometimes they were done 18 months, sometimes they were done in 3 years. Some of them simply hadn't been reviewed.

Each SBIC and SSBIC in our portfolio is on a regular examination schedule. So, we are moving to correct the issues in that program.

In terms of the Office of Advocacy, we are very supportive of it. We rely on it heavily. We bear no finance programs in there so there was no need to request any specific budgetary program funds in there. In terms of authorization, there was, again, no reason to request anything there.

We have, of course, had the confirmation hearing of our chief counsel, and we hope he will be cleared by the Senate either the end of this week or early next week.

I believe—if that wasn't all of your issues, that was all I wrote down.

Mrs. MEYERS. Did you address the "such sums as necessary" language or salaries and expenses accounts?

Ms. PULLEY. Could you be more specific? I am not sure I understand.

Mrs. MEYERS. Maybe I am just not understanding your——

Chairman LAFALCE. Your time has expired. We will come back to you, Mrs. Meyers.

Mr. Poshard, do you have any questions?

Mr. POSHARD. Not at this point.

Chairman LAFALCE. Mr. Knollenberg.

Mr. KNOLLENBERG. Thank you, Mr. Chairman.

I do have a question. I am going to focus on the 7(a) loans and the subsidy rate. Now, the current subsidy rate I believe is guesstimated at 2 percent?

Ms. PULLEY. It is 2.15 percent for 1994.

Mr. KNOLLENBERG. How do you decide this rate? How do you make that determination?

Ms. PULLEY. The subsidy rate is determined by computing the estimated cash flows on a net present value basis. This includes our loan-loss experience in the program. This includes as well as economic adjustments provided by the Office of Management and Budget, which includes inflation factors, et cetera. This information is entered into a complex computer model that then computes the subsidy rate.

Mr. KNOLLENBERG. But, for example, what was the subsidy rate last year?

Ms. PULLEY. 1993, it was 5.21 percent.

Mr. KNOLLENBERG. What happened to make it 2.15 percent?

Ms. PULLEY. One of the things we did was to increase the income stream.

Mr. KNOLLENBERG. How did you do that?

Ms. PULLEY. As you know, the 7(a) loans are sold to the secondary market at a considerable premium. Now, SBA captures a portion of that premium that the banks get as a result of selling the loans. So, that income now comes to us. So, we have increased the income stream.

We have reduced the guarantee percentage on the 7(a) loan program. So, as a result our exposure is less, so we were able to reduce our subsidy rate.

We consciously made an effort to reduce the subsidy rate, because, as you remember, in 1993 we ran out of money in the middle of the year, and we had to try to find a way to increase the amount of authority we had available without requesting additional money.

Mr. KNOLLENBERG. There is a default rate also. There is also the matter of the T-bills, and T-bills float.

How do you actually determine this month by month? What is the accounting procedure that leads you to a figure, something that will tell you what that subsidy rate is?

Because you are expanding this program from $7 billion to something like $15 billion. If you miss that subsidy rate by a point or two, you greatly increase the amount of cost to the taxpayer, because right now it is somewhat minimal, 2.15 percent.

But what if it were 5, 6, or 7—and it could get to that point, because it was there before—and admittedly you have done some things to tighten up and control it, but what kind of accounting procedure in black and white do you have that predicts the varying factors? I know there are several, the default rate, the T-bill, the increases in the revenue stream. Do you have something we could look at to tell us specifically how you come to those conclusions? Because I think that would tell us a great deal about the cost of the program.

You are increasing the size, you are actually folding in the microprogram as well. My concern is, what is this thing going to cost us? What is it costing us now based upon some accounting principles we could look at and make a full determination so we are satisfied that it is solid?

Ms. PULLEY. First of all, the subsidy rate is calculated annually, in October, for that fiscal year.

Mr. KNOLLENBERG. It is estimated, in other words?

Ms. PULLEY. Right. It is an estimated figure and it is based on the net present value of all the estimated cash flow. What we would do is be happy to provide you the subsidy rates and a copy of the model and accompanying spread sheets that will provide a detailed explanation of all the factors that went into the computation of the subsidy rate.

You will note our subsidy rate for the 7(a) Program for fiscal year 1995 is higher than for 1994 to account for the Microloan Program, the empowerment zones, the additional factors in 1995 that were not in 1994, even though there will be more income in 1995 from the program than there was in 1994, because we started the income on the premium that we are charging, the fee that we are getting, start at mid-year 1994.

But we will be happy to provide that to you.

Mr. KNOLLENBERG. I would be happy to have those figures. I do have some concern about the method of calculation to make that determination, because it appears to me that there is some Kentucky windage involved in that process. It is guestimation, it is estimation, and just what kind of rigid accounting principles are employed to make sure that we don't have something here that goes through the roof, which it could.

Admittedly, by your own testimony of some of your own numbers in previous years, we have the makings of potentially some problem loans that would concern and actually would produce a higher negative figure or a higher subsidy. That concerns me.

I would like to know specifically the process by which you do arrive at that.

Ms. PULLEY. We would be happy to give it to you. Let me also say the subsidy rate is dictated by credit reform. It is not a figure that SBA generates. It is done governmentwide. Each Government financing program has a subsidy rate, and the formula is prescribed.

Mr. KNOLLENBERG. Well, I understand that. I still would like to see those numbers.

Ms. PULLEY. We will certainly provide that to you, historically, as well as what we are doing in 1994 and 1995.

[The information may be found in the appendix.]

Mr. KNOLLENBERG. How many businesses is the SBA serving? What percentage of small businesses are actually served, do you know?

Ms. PULLEY. Any particular program, or——

Mr. KNOLLENBERG. Just generically. I am talking about all of them. Most of the program is the 7(a) Program. Most of—90 percent of your loans?

Ms. PULLEY. Approximately 30,000 loans in our portfolio. I would doubt less than maybe 1 percent of them are—because we have a limit on our exposure to any one company. So, in terms of the 7(a) Program, we have 30,000 loans.

Mr. KNOLLENBERG. I think for now that concludes my questions, Mr. Chairman. I may get back with another, if I might.

Chairman LAFALCE. Mr. Manzullo.

Mr. MANZULLO. Thank you, Mr. Chairman.

Ms. Pulley, the opening remarks that I made, were you given some background information on that?

Ms. PULLEY. Actually, unfortunately I don't, and what I would like to do is get back to you, because one of the things I am not clear whether or not you were talking about a disaster loan, because you said the company had experienced some economic injury, but then you started talking about size standards. If you don't mind, I would like it get back to you on that.

Mr. MANZULLO. Perhaps I could just make my question clearer. My understanding is that there is the same threshold level beyond which a prospective recipient of an SBA loan cannot exceed, regardless of the nature of the loan, whether it is for disaster loan or for regular SPR. Are there different standards for that?

Ms. PULLEY. Yes.

Mr. MANZULLO. If you are not sure, I understand——

Ms. PULLEY. When you started talking about a used car dealer versus a new car dealer, in our 7(a) loans, our size standards are very specific for purposes of Government procurement.

For purposes of 7(a) loans, the standards are generic, and I believe it is $2 million in net worth and $6 million in revenues for all small businesses. We are not really particularly focused on the industry. We don't get down to the detail of whether it is a new or used car dealer for a 7(a) loan.

That is why when you were saying they experienced economic injury, that was when I wasn't sure if you were talking about a disaster loan, which is where economic injury becomes an issue, so that if you don't mind, I would like to check on the specifics, because I can't really answer that right now.

Mr. MANZULLO. Of course. It is a complicated area. If there is a glitch there, it is the type of thing that could be easily cleared up.

[The information may be found in the appendix.]

Mr. MANZULLO. I do have a number of other questions, Mr. Chairman, if that is OK. This again is a very generic question that comes up continuously.

For every dollar appropriated by Congress to fund the SBA, how much is actually returned via principal repayment and interest by recipient businesses? That is a good question.

Ms. PULLEY. It is a good question.

Mr. MANZULLO. You can give me the answer to that later on also.

Ms. PULLEY. Thank you.

[The information may be found in the appendix.]

Mr. MANZULLO. Third question, with regard to prepayment penalties, could you explain the rationale for a prepayment penalty in the first place?

Ms. PULLEY. Basically when a funding institution commits long term, they expect to get income back over a period of time. If the loan is repaid, the funding institution loses that income stream. So, what all funding institutions, most of them do, is to attach a penalty at the outset to compensate for the loss of income in the event that they aren't able to reinvest the money. That is standard.

Mr. MANZULLO. I would make a suggestion. In Illinois it is illegal on a residential mortgage to have a prepayment penalty. That has never stopped lenders from getting involved. In fact, when I represented small businesses, I had a couple put into bankruptcy because of the almost usurious rate of interest that they had to continue to pay back.

I think if we eliminated that prepayment penalty, that would put more capital back into the stream and allow businesses to get out from under an oppressive rate and be allowed to refinance, the same way people do with home mortgages.

Ms. PULLEY. I should have been more specific. On commercial loans prepayment penalties are standard. On home mortgages, they are usually not allowed.

Mr. MANZULLO. I understand that. I would like to see the prepayment penalty eliminated as to commercial loans. The problem I had was whenever I represented a small business, and I did a lot of them, I told them to stay away from the SBA because you are going to get locked into a high rate of interest, they are going to tie up your real estate anyway. Go to a bank and pay a higher rate of interest, because when the interest rate falls, you can refinance.

So the question is, what good is the SBA during a period of high interest rates?

Ms. PULLEY. I agree with you. That is why I want to eliminate the prepayment penalty.

Chairman LaFalce. That was just one type of SBA loan.

Ms. Pulley. The bank is the funding institution. We are just the guarantor. Again, the bank is on the hook for a percentage of the loan. So, even if we eliminated the prepayment penalty on our portion of the loan, the bank would in all probability still have a prepayment penalty on its portion. It is a question of where the bank is getting the money from.

Mr. Manzullo. So you have no alternative but to follow the bank's practice, on the prepayment penalty.

Ms. Pulley. There would be an alternative. It is not—a prepayment penalty I think in and of itself is not necessarily bad. It is that in the case of the 503, it is an onerous prepayment penalty. I don't ever in my years in finance remember having seen a prepayment penalty like that one.

Mr. Manzullo. It is always amazing on these Government loans, for example, when a veteran goes to pay off his residential real estate mortgage, he has to pay mortgage to the end of the month, even if he closes on the first day of the month. Private industry never requires that. It is just one of those anomalies as to why it is more expensive. Perhaps it is because of the risk of loss that is involved. I don't know.

Ms. Ryan. I just wanted to make one comment on the prepayment issue. One of the things that SBA really does for businesses that conventional lenders can't do is it gives them longer-term loans. One of the things that both the 503 and 504 Programs have done is give them a way to get fixed-rate long-term loans, which are just not available conventionally.

So as Cassandra said, the 503 prepayment penalty was an onerous one, and hopefully the legislation can address that. But the 504 Program, which is working really well, has a very modest repayment penalty, but that induces private investors now to buy these securities, and opens the door for small businesses to get long-term fixed-rate financing.

That is a type of vehicle that if we can't give the investors what they need, the small companies wouldn't be able to get that. So, the way it is structured now, it seems like an incredibly good loan product, and hopefully we can get over this 503.

Mr. Manzullo. You effectively eliminated the large prepayment penalties?

Ms. Ryan. Right. It is very modest.

Mr. Manzullo. That is fine. Thank you.

Chairman LaFalce. Mr. Hilliard, do you have any questions?

Mr. Hilliard. I have none.

Chairman LaFalce. Jan, did you have any more?

Does anyone else have additional questions?

Mr. Knollenberg. If I could, Mr. Chairman, just so I understand, and I know you will get the information for me, I believe this paraphrases what is in the Federal Credit Reform Act, or credit reform, if you will—it says the act requires Congress to estimate the cost to the taxpayers, but it doesn't go beyond that, I guess in terms of requiring Congress to at least secure, actual, valid information as to the history of those estimates, as to what actually transpired.

That is what I am interested in, because if all we do is require oversight of the estimates, that is just half of it, and maybe a minor half, a minor fraction of what the total cost might ultimately be.

If I have interpreted that properly, that is our role, simply to estimate; is that right?

Ms. PULLEY. We fix in October a subsidy rate for the coming year, so we are estimating. It is a prospective rate.

Mr. KNOLLENBERG. What about looking back at what the actual history was?

Ms. PULLEY. Each year into the prospective rate is an analysis of what happened in the past year. It is based on your loss ratio in the past year.

In the case now that we are collecting a premium, how much income did we collect, because in fact, we ended up making an adjustment to our subsidy rate mid-year this year, because we had initially anticipated having a higher stream of income than we did, than we actually got, because we started collecting the 40 basis points on secondary market sales mid-year.

It took longer for the income stream to buildup to the level we originally projected. So, we went back in fact, and adjusted our subsidy rate in 1994.

Mr. KNOLLENBERG. I look forward to those figures.

Thank you.

Chairman LAFALCE. Thank you very much.

I want to thank the members of the panel. I am going to withhold my questions. We can do that in private. But it has come to my attention that today is a special today that I didn't realize. I guess today is Parent-Daughter Day and is the reason that the Hernandezes, Gabrielle and Rena Hernandez, were here. They are the daughters of Rick Hernandez. Are you Gabrielle, and you, Rena Hernandez? Did Hope Fisher leave?

Ms. PULLEY. I think she went to the ladies' room.

Chairman LAFALCE. You are the daughter of Rick Hernandez, Counselor to the Administrator, and Hope is the daughter of William Fisher, Department of Personnel. We also have Tiffany Jackson, the daughter of our staff assistant, Brenda Jackson.

I wonder if Tiffany and Gabrielle and Rena could just stand for a moment.

I think we ought to have the Manzullo children stand once again for a hand.

With that, we are going to adjourn this hearing, and the Small Business Committee will reconvene at 11 a.m., to have a procurement hearing.

Thank you very much.

[Whereupon, at 10:35 a.m., the committee was adjourned, to reconvene at 11 a.m., this same day, to proceed to other business.]

REAUTHORIZATION OF SMALL BUSINESS ADMINISTRATION PROGRAMS

WEDNESDAY, MAY 4, 1994

House of Representatives,
Committee on Small Business,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in Room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LaFalce. The Small Business Committee will come to order.

This morning we resume hearings on the reauthorization of programs involving the Small Business Administration and related authorizations.

Last week, we commenced this process with testimony from Deputy Administrator Cassandra Pulley on H.R. 4297, the Small Business Administration amendments of 1994, and H.R. 4298, a bill to provide partial relief from prepayment penalties imposed upon debentures used to finance small businesses by Section 503 development companies.

Periodically our committee reviews all of the programs within its jurisdiction and provides for a multiyear continuation, including necessary modifications for those programs it deems to be successful. We last did this in 1990 and subsequently last August made minor changes to fine tune our previous decision. This year I expect we will again provide for the continuity which is made possible by multiyear authorizations for loans programs, surety bonds, venture capital programs and others.

In addition, this year for the first time we will be reviewing simultaneously three laws which are being administered by independent bodies.

First is the White House Conference on Small Business which will commence with a statewide conference in Wilmington, Delaware, on June 2nd, and which will culminate with the national conference in Washington the week of June 11th of next year.

Second is the Central European Small Business Development Commission, which was established in order to seek replication of the domestic SBDC program in three countries in central Europe—Poland, Hungary and what was formerly Czechoslovakia.

Finally, the National Women's Business Council which we established in 1988 in order to recommend to the Congress and the President ways to assist women business owners to overcome barriers to fully participate in the mainstream of the American economy.

This morning we are pleased to have appearing before us representatives of small business associations and also the chairpersons of the two independent commissions and the Women's Council.

Let me just also say in addition to those witnesses whose names appear on the witness list, we were to have also received testimony from Francis Carroll of the Small Business Service Bureau. Unfortunately illness prevented Francis' appearance this morning, but he has submitted a statement, and assuming there is no objection, it will be made a part of today's hearing record.

[Mr. Francis' statement may be fond in the appendix.]

Chairman LaFalce. Before we recognize our first panel of small business association representatives, I would like to call on our very distinguished Ranking Minority Member, Mrs. Jan Meyers.

[Chairman LaFalce's statement may be found in the appendix.]

Mrs. Meyers. Thank you, Mr. Chairman. Just very briefly, thank you for convening this morning's hearing. I look forward to the testimony from our witnesses gathered today as well as future authorization sessions.

Prior to this testimony, however, I would like to make just a comment. This committee serves a very important role as we seek to aid, counsel, and assist the Nation's small business community. The reauthorization of SBA programs is very important to that assistance. Therefore, I hope that the committee can hear from the administrator prior to the conclusion of this set of hearings.

Chairman LaFalce. A reasonable request. Any other Members wish to make a statement? Mr. Kim?

Mr. Kim. I would like to ask for unanimous consent to submit my written statement.

Chairman LaFalce. Without objection, so ordered.

Mr. Kim. Thank you.

[Mr. Kim's statement may be found in the appendix.]

[Mr. Ramstad's statement may be found in the appendix.]

[Mr. Dickey's statement may be found in the appendix.]

Chairman LaFalce. With that, we will hear from our witnesses on panel number one, Mr. Ron Cohen, the president of National Small Business United and Mr. Tom Rumfelt, the chairman of the National Business Owners Association.

Mr. Cohen, please proceed. We will put the entirety of your testimony in the record as if it were read, and you may feel free to summarize it, but in all cases, because of the number of witnesses, I would want you to confine your testimony to between 5 to 10 minutes.

Mr. Cohen.

TESTIMONY OF RON COHEN, PRESIDENT, NATIONAL SMALL BUSINESS UNITED

Mr. Cohen. Mr. Chairman, members of the committee, good morning. I would like to introduce myself first. My name is Ronald Cohen. I am senior partner of a CPA firm headquartered in Cleveland, Ohio. Our firm specializes in doing accounting, tax, and particularly business advice to closely held and family businesses.

I am here today in my capacity as the current president of National Small Business United. National Small Business United is an organization with approximately 65,000 members in all 50 States and quite a few very strong affiliate business organization members that participate in our deliberations.

I would like to make two very positive comments that I think it really gives me pleasure to say. One is that it is nice to be up here talking about something as a small business person that is relatively noncontroversial and that has some chance of being adopted. That is not always the case for us.

Second, I want to take this opportunity to comment as a person very close to the situation and working hand in hand in a problem-solving capacity with the administrator and comment as to what a wonderful job he is doing, how dedicated and committed he is to supporting the small business cause and to paying attention to our needs, and I know this is an oversight committee in that regards. I want to compliment you on your selection and support of that administrator.

As to the bills about which I am here to testify, in my opinion, the most substantive issue is House bill 4298, which relates to the easing of the prepayment penalty on the old 503 loans. I believe it is ironic, the 503 program which has been generally successful and even though it has terminated, it has been succeeded by 504, which is also doing a commendable job. We see many of our clients helped by those loans.

It is ironic the purpose of those loans were to stimulate business expansion and business development, but as it happens, the very onerous prepayment penalties have now acted to create a counter-result, a contrary result because what is happening is those people who have expanded and are successful and want to further expand are now burdened with, in some cases, up to 60 or 70 percent of their principal as a prepayment penalty in order to refinance their obligations and further expand.

Another way of looking at this is that we are penalizing these companies for their success, and I know that at an earlier time not too long ago, the very survival of SBA was in question. The Government was willing in order as a fund-raising mechanism to sell off their loans at pennies on the dollar, and now we find ourselves questioning an authorization relatively small in number which enhances the 100 percent payment of the principal on these loans and a not insignificant adjusted prepayment penalty under this legislation, and I think it is the least we can do for these very successful borrowers.

The new provision would grant similar relief. It would only make the 503 penalties similar to the 504 penalties, which is one year's interest on the note which, as I said before, is certainly not insignificant, but I think it is doable by most of these successful companies.

The other bill that we are here in behalf of is House bill number 4297. This has several titles. I want to comment particularly on the expansion of the 7(a) Program, and I want to say that in our district, it appears this program is working very successfully. There are many small businesses being helped by this. We need streamlining in procedures and some other modifications, but certainly the expansion of the program is well warranted.

I testified approximately a year ago in front of this very same committee that was looking at the credit crunch, and I want to report to you, as a practicing CPA in the Midwest, that that credit crunch still exists. Our clients are still having problems getting conventional loans, and this 7(a) Program is very much needed.

There are requests, relatively modest for expansion, of the microloan and export loan projects. Those look like they can be very helpful to the segments of the small business community at which they are directed. I think they are deserving of your support.

Finally, there are some housekeeping provisions. The rest of the modifications in the bill appear to be very appropriate and we assume that they will aid the agency in operating more efficiently and better servicing the needs of small business. However, I would caution that sometimes in the streamlining and making more efficient the operations, we cut one head or more too many and we have a counter-result, so I think that we ought to strive for balance in having enough qualified people there to see that the programs are successfully administered while we are streamlining and improving the agency.

That is the conclusion of my remarks. I want to once again express my sincere thanks for the opportunity for me personally and as a representative of the National Small Business United to be before you and make these comments. I would be happy to answer any questions that you may want to pose. Please don't make them too technical.

Chairman LaFalce. Thank you very much, Mr. Cohen.

[Mr. Cohen's statement may be found in the appendix.]

Chairman LaFalce. Our next witness will be Mr. Thomas Rumfelt, the chairman of the National Business Owners Association.

Mr. Rumfelt.

TESTIMONY OF THOMAS B. RUMFELT, CHAIRMAN, NATIONAL BUSINESS OWNERS ASSOCIATION, INC.

Mr. Rumfelt. Mr. Chairman, Mrs. Meyers, and members of the committee, my name is Thomas B. Rumfelt, and I am here representing the National Business Owners Association and their membership. I am currently chairman of that association.

The NBOA appreciates the opportunity to present our views on key programs and activities at the U.S. Small Business Administration and how they assist America's nearly 22 million businessmen and women. We welcome the opportunity to offer our comments on legislation, introduced at the request of the administration, to make changes to various programs. Because we have not formulated positions on all issues addressed in the administration-sponsored legislation, we will withhold commenting on various provisions at this time.

The National Business Owners Association represents nearly 8,000 small businesses and has an active and rapidly expanding membership. It is a voice for small business here in Washington and across America. Our members believe that a strong and competitive free economy is essential to create and increase economic growth, opportunity, jobs, and prosperity for all Americans. That is why NBOA represents its members' interests to work to influence and enact national policies that promote economic growth and entrepreneurship.

We commend you, Mr. Chairman, for convening this hearing today to address ways to assist small business owners. I think it is fitting to hold this hearing during U.S. Small Business Week, a time set-aside to recognize the achievements and contributions of small businessmen and women. It strikes me that as we pay tribute to them for all they have done to build America, the NBOA and small business owners owe you, Mr. Chairman, Mrs. Meyers and members of this committee their gratitude for the leadership, support, and assistance you have provided over the years.

I commend you for all you have done for small business owners and all that you will do for them. Thank you and this committee; small business has a strong voice in Congress.

I don't need to remind you how important small business is to our Nation's economy's well-being and growth. But since this is Small Business Week, I would like to highlight a few key facts about small businessmen and women's accomplishments and contributions. For example, small business contributes half of the gross domestic product of the United States. If considered alone, that would rank among the top three economies on Earth after United States as a whole and after Japan.

More than 700,000 new businesses are launched every year. That has increased about 50 percent since 1982. Small businesses account for over half the nearly 5 trillion of all sales in the United States. Small business is America's leading employer. Six in 10 Americans are employed by small firms, and small business owners have provided all the new jobs in the United States in the last 5 years. These accomplishments and contributions are even more remarkable when you consider the odds and obstacles that face small business.

Small business owners are struggling and even successful owners are threatened by higher taxes and spending, increased regulations, mounting paperwork, and employer mandates, and yet despite all these challenges, their courage to continue and their demonstration to succeed remains strong.

You recognize that American entrepreneurs and small business owners are the moving force of our economy today. They are the source of its vitality and its growth, and they are the major contributor of new jobs and prosperity for Americans. Small business owners will tell you this because the American spirit of free enterprise is alive and at work in them.

As an entrepreneur, I must agree that this same spirit makes the same difference in big cities and small towns where it is at work. I have seen it a positive power at work in my own town as I see the difference it has made.

I would like to tell you about the kind of difference it can make. In 1989 I started a business. Over the last 4 years, our family-owned businesses have grown to employ more than 250 individuals. When we started, the downtown Lake Wells, Florida area was full of vacant buildings, most in poor conditions, but as we grew, we invested. We bought many of these buildings to accommodate our growth, renovating them and returning them to productive use.

Today our payroll and purchasing contributes millions to the local economy and has brought life to a once dying downtown.

My story is not unique, but I mention it here to show you the difference that hundreds of thousands of small business owners like myself can make in communities across this country. I am proud of the difference our company and employees have made and what they have contributed.

When I started my company I didn't go to the bank for a loan, like most aspiring business owners. But for every one of me, there are 10,000 others out there who cannot start a business. This is true, most financial institutions are reluctant to lend to prospective small business owners, and it is despite posting some of their most profitable years ever. This is why the SBA and its loan programs are important.

In many cases, they are the only option, the only source of capital available for startup and expansion. Programs like the Microloan Program are absolutely essential. I wish I would have known about this program when I started my company, but I am pleased that it is here to help others.

Mr. Chairman, the availability of capital is the key to small business formation and growth and that is why we support Microloan Programs and its efforts to expand. Small business owners consistently worry about sales, about developing new customers, about expanding their market.

In looking for new customers and new markets, many small business owners are looking beyond our borders. The U.S. Small Business Administration estimates that three out of four firms export our small business. Selling abroad is no longer a luxury, it is an economic necessity, that is why we must insure that American small business owners are positioned to take advantage of the trade opportunity. As more nations open their doors for business, small firms will have increased business opportunities.

For example, the North American Free Trade Agreement and the recent GATT agreement will provide new economic opportunities. To seize these new opportunities, small businessmen must not only be prepared, they must be capable of financing export sales. This is where the export loan programs of the SBA can help, and that is why we support changes to these programs that will help more small business owners grow.

Another program that helps small business owners is the Certified Development Company Program. We commend you, Mr. Chairman, for sponsoring legislation that created this important program. The CDC Program has been a source of long-term, fixed rate brick and mortar capital enabling small business to invest in industry and commercial buildings to buy machinery and equipment. It has helped many small firms grow and expand.

We support the administrator's efforts to release small business borrowers of high prepayment burden by allowing them to prepay under more favorable terms available under the 504 Program. Overall, we believe it makes good economic sense and business sense to let borrowers prepay without penalty. This helps replenish their capital pool, making new loan funds available.

Refinancing frees up money for investment in business, equipment and jobs, and new business growth ensures that more tax revenues flow into the Government. Therefore, we would recommend elimination of all prepayment penalties as they relate to loans made under the 503 and 504 Programs.

Mr. Chairman, we support the changes in these and several other programs that are contained in the two administration sponsored bills. Moreover, we support a strong SBA as the sole Federal agency whose single mission is to assist small business owners, and thanks to the U.S. Small Business Administration, they had that strong voice in Government.

There can be no question about the contributions of small business owners and the importance to this country, and there can be no question about the difference that they make in small towns and big cities that dot this country, and that is why together we must do everything we can to ensure that small business and the spirit of free enterprise which has done so much for this country over the last two centuries will continue to do just as much over the next two. That is why this committee and the SBA are so important and will remain so.

We appreciate the opportunity to offer our views on important programs and activities at the U.S. Small Business Administration. We will continue to carefully evaluate recommendations, modifications and determine whether other changes in SBA Programs are necessary to improve service and assistance to the nearly 22 million small business owners.

Mr. Chairman, we look forward to working with you, Mrs. Meyers, and the members of this committee over the coming months to strengthen the U.S. Small Business Administration and its program. I would like to personally thank you for the opportunity extended to the association, to myself this morning, and I would be delighted to respond to any questions or comments that you may have.

[Mr. Rumfelt's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much.

The Chair will defer questioning until the other Members have had an opportunity.

I first call upon Ms. Margolies-Mezvinsky.

Ms. Margolies-Mezvinsky. Mr. Chairman, thank you very much. I would like to enter an opening statement into the record.

Chairman LaFalce. Without objection, so ordered.

[Ms. Margolies-Mezvinsky's statement may be found in the appendix.]

Ms. Margolies-Mezvinsky. I would like to know from the witnesses what are the complaints that you hear most from the business community? We know what we hear. What are the frustrations that you are hearing from your colleagues?

Mr. Rumfelt. From the members of the National Business Owners Association, I think their greatest concern is Government intervention, the continuing mounting regulations that is applied on small business, and of course the recent tax reform did not comfort their feelings either as far as Government intervention in these areas.

I think that the Small Business Administration does have hope for many small businesses, particularly those individuals, entrepreneurs that are desiring to have the opportunity to start in business, and this is particularly in providing resources for capital for startups in lieu of most lending institutions' reluctance to provide that source of capital, so we have—I think our businesses in general are looking favorably toward the small business as we feel this Small Business Committee is, as you are our only real hope for help in the 1990's.

Mr. COHEN. Is your question directed to the SBA Programs?

Ms. MARGOLIES-MEZVINSKY. Yes.

Mr. COHEN. I think the most common complaint which is partially perception and partially reality is the length of time it takes to process and apply for and receive funds under the various programs. I think it will take a long time after—it is much better than it used to be, but the perception lingers behind the streamlining of the process.

I think that there are also in some cases unrealistic limits, guidelines. Some of the programs just do not appear to be as directly attentive to the real needs, and that is where sometimes the programs lag behind the needs.

Ms. MARGOLIES-MEZVINSKY. We hear, and certainly the committee has heard that there lacks somehow a reasonableness to some of the regulations and that many of the businesses feel if they can get rid of some of the old regulations, they wouldn't mind seeing some of the new ones, but that regulation on top of regulation becomes very stifling.

Mr. COHEN. Yes, I think that I asked whether you want me to specifically comment on the loans. If your question related to small business complaints about Government in general, I would have tried to determine whether you wanted the whole list or just the top 10, but I think that the regulatory burden that businesses are put under by virtually every agency of the Government, and in some cases, unfortunately, there is an adversarial attitude by the employees of those agencies. They certainly don't act like they are public servants.

In reality, the business people feel like they are the ones that have a problem with servitude, and then, second, I think the most critical specific issue are all the—some of this is related to regulations as well, but certainly the growing oppression that business people feel in relationship to what is involved in hiring employees. It is like signing up for litigation, there is tremendous cost as payroll taxes, State and local and of course Federal grow, all of the mandates which we have now and that are threatened, the well-intentioned social legislation to protect the workers are resulting in there being fewer workers to protect, and business people are very upset about that specific issue.

I think third, and I only put it third because not every company needs money, but those that do need money, and I am talking about deserving people, are involved in a very serious credit crunch, even though the banks have plenty of money. Once again, much of that is because of regulations, in this case, regulations and regulators from the various Government agencies who are protecting our coffers while they are destroying a source of revenue for those coffers. I could continue, but I think that those are the major issues.

Ms. MARGOLIES-MEZVINSKY. Thank you. I would like to know very briefly, if you can, what you have heard with regard to fears and health care reform by small businesses, especially Mr. Rumfelt.

Mr. RUMFELT. Well, I think there is a legitimate concern expressed by our membership in general. There is a lot of confusion because of the constant changes in the proposed final product. I think that most small businesses are recognizing or accepting the fact there is going to be some reform, but I think that they are concerned and they are cautious as to the impact it will have on their business.

There are many businesses depending upon the amount of burden that is passed over to the business owner are just not going to be able to survive. But I think, in general, most employers care about their employees, and they want to be available to assist them to their fullest abilities economically. This is not always the case, as evidenced by so many employers not being able to economically provide health care for their existing employees.

Ms. MARGOLIES-MEZVINSKY. Do you provide health care for your employees?

Mr. RUMFELT. Yes, we do.

Mr. COHEN. I would like to also comment on that. It is amazing how related some of these answers are, but because of the regulations and the attitude of Government agencies in enforcing or administering those regulations, one very, very major problem we have with health care, regardless if there was a perfect bill presented that would magically at very little cost solve every problem that we have in our system now, then I think that there would be many business people who would vote no just because they are fed up with the Government doing anything. They don't trust the Government, no matter how good something sounds, or looks, they just are very suspicious, and it is a perception.

First you have to correct the reality, then you are going to have to correct the perception, but that is a major problem that I hear from people. Now, that being said, I want—I know that the health care costs from a profit and loss statement is one of the most onerous and burdensome obligations that businesses have, and those who cannot afford to provide it are losing competitively in the employment market, so it hurts you whether or not you are paying the premium, it hurts you one way or the other, and it is very serious.

As an organization, our position is very—our organization is very supportive of the administration's effort to push health care reform to the forefront. There are many parts of the administration's proposal that we wholeheartedly support. We, however, are adamantly opposed to any provision in any bill that provides additional burdens either financially or otherwise on an employer.

Unfortunately, the administration's proposal does include employer mandates, and it is a cause for us being opposed to that provision. The Government has decided that in order to solve the social ills of this country and the burdens of many of our people, that they are going to do it at the expense of employers. Since small business is very labor intensive, trying to do it, trying to have employers cover those costs and bear those burdens has created a very devastating effect, and it is counter-expansion and it is anti-job.

Ms. MARGOLIES-MEZVINSKY. Thank you very much.

Chairman LAFALCE. Mrs. Meyers.

Mrs. MEYERS. Thank you, Mr. Chairman.

I am tempted to ask you, Mr. Cohen, you mentioned in concerns that small business had about Government, did we want the top 10 or not, and I am tempted to say yes, I would like the top 10, and maybe some suggestions about what we can do about it. Instead, I think I will just say—ask a couple of questions. What would you change about the SBA if you could change it? What are the shortcomings of SBA?

Mr. COHEN. Well, the biggest shortcoming that we have seen is the lack of a sitting Chief Counsel for Advocacy for, I believe now—we are in the 6th year, essentially, of having an effect since Mr. Swain left that position, we really have not had some strong voice for our causes in that chair. I think that is—it is a wonderful law that is not implemented.

I really see very little wrong with the SBA or hear very little wrong with the SBA that is different from the perception of tremendous Government inefficiency in administering anything, and I think, on balance, it is probably less true of the SBA than other agencies. I think that the administrator is trying to do a good job to further reduce that reality and perception.

Mrs. MEYERS. I think I would agree with you. I think we have a strong administrator and one that——

Mr. COHEN. We need a strong advocate as well.

Mrs. MEYERS. We do need a strong advocate. As I understand it, that nomination is pending confirmation in the Senate, and I am not sure quite what the hold-up is, but I would like to move that forward if we could.

Chairman LAFALCE. Is that an announcement of your candidacy?

Mrs. MEYERS. No.

Mr. COHEN. Maybe that is an announcement she is going to talk to some of her colleagues.

Mrs. MEYERS. That might be a good idea. I would like to ask Mr. Rumfelt, you mentioned in your testimony that half of the exports in this country are done by firms with how many employees or less? I can't remember. Ten employees or less?

Mr. RUMFELT. Of all firms that export, three-quarters are considered small business firms. The other quarter would be not considered small business.

Mrs. MEYERS. How close are we coming to making our products noncompetitive overseas with some of the things that Mr. Cohen was mentioning in terms of the burdens that we place on small business? Has it become more difficult in, say, the last 5 years when it seems to me we have put just one burden after another on small business?

Mr. RUMFELT. I am certain that any additional regulation or financial burdens placed on small business is going to have impacts on the bottom line, and that impact will naturally have a result in our abilities to compete on a worldwide scope.

I am not sure there is any simple solution except to try to limit the amount of regulation that is required in the future and if there can be some relief to some of the existing burdens that are confronted by small business, it would certainly be welcomed. I am sure you have heard most of those complaints.

Mrs. MEYERS. I think that that speaks again to maybe the reform of the reflex act that we are talking about in this session and the confirmation of the Chief Counsel for Advocacy. Both of you—I would like to say, do either of your organizations have positions on the proposed fees that the SBA would like to charge, for example, $15 an hour for counseling by a small business development center?

This was included in the President's budget proposal for the SBA. Is that going to mean that we won't have more activity at the small business development centers? Is that a bearable burden? Will you comment on that.

Mr. COHEN. We do not have a position. It has been my experience that such fees, when actually administering them, the organization—I know the small business development centers are made up of many different providers. Many of those providers are nonprofit or community organizations or social organizations. It seems there are facilities there to provide scholarships, so to speak, or to pay those fees if there is a financial need that is demonstrated.

Although we don't have a formal position, we would rather see—my guess is that we would rather see a fee than a program eliminated because of lack of funding.

Mrs. MEYERS. Thank you. Mr. Rumfelt, do you have a comment on that?

Mr. RUMFELT. We do not have a formal policy that we have adopted in regards to that particular issue. I would say that the fee issue is something that is worthy of concern and certainly would separate those candidates that are genuinely interested in pursuing services from the Small Business Administration, from those that are just inquiring, and that would probably assist them in reducing some of their workload and just enable the administration to pay attention to those candidates that are sincere.

Mrs. MEYERS. Thank you.

Chairman LAFALCE. Do any other Members have any questions? Mr. Sarpalius.

Mr. SARPALIUS. I wanted to get your comments. You hit a little bit on it in your testimony. Probably one area where I think we need to be a lot more aggressive in is trying to capture opportunities for small businesses and world markets around the world as we see the world change.

And in all honesty, I think some of our loan programs have done a very poor job in that area. I have talked to businesses that have brought contracts back signed and can't get funding here or anybody to help provide the funds for those contracts.

But I would like to get your opinion on what we could do to better—I guess to give greater opportunities or assurances to small businesses that put out an effort themselves to obtain those contracts, what we can do to help assist them with financing.

Mr. RUMFELT. Well, I think that you are making some progress already in increasing your proposed support for export line of credit. I am not sure that there is a solution other than what is already being done. I think that as far as my input, for whatever that would be of value, that those business owners that are frustrated or those entrepreneurs and have gone to a lot of effort in securing contracts or opportunities to move merchandise should have been better informed before they started that process to assure themselves that they could have secured the appropriate financing to begin with.

I think that the SBA does have a channel currently for this, and the SBA and this committee is willing to expand that particular availability for that particular business owner entrepreneur.

Mr. COHEN. The answer to that is more complicated, I think, than we could talk about here, not more complicated than Mr. Rumfelt's response. We have—we need a lot of education first for the exporter, and I think it is everybody's job, including our own organizations to help provide that education. The SBA should try to do their part.

Then I think we need to try to educate our lenders and people providing financial support because, in so many cases, our parochial system in this country treats foreign customers different than domestic customers, so whereas items like accounts receivable become very good collateral or inventory constituting work in process on an order that is going to be shipped overseas, whereas if it were domestic, it would provide good collateral because it is foreign and our banks don't look across the borders, the creditworthiness of those receivables and inventory is denied, so we need to work with our banks to improve that situation.

Mr. SARPALIUS. Let me say, I think you hit right at the heart of the problem right there because there are opportunities for small businesses that can create thousands of jobs across this country if lending institutions would realize what those opportunities are.

My question is: What can we do to encourage lending institutions and banks to make more of those loans?

Mr. COHEN. Sir, I wish I knew the answer to that question, and then a whole series of domestic loans for which there are similar irrational barriers. I can't answer that question. The profit motive for banks is no longer being in the risk business of making loans. Banks today make money by buying other banks, by the increase in the value of their marketable portfolio, and by the hedging of various funds and manipulations, the use of derivatives.

Things that they are doing in the securities market create enormous profits for banks. The making money by lending it to small business, regardless of whether they are domestic or international, is hard work. It takes intelligent decisions by intelligent people who have to be responsible for those decisions, and the profits are not going to be as great as the other profits. So it is very hard for us to come up with some magic formula that is going to change their incentives.

Mr. SARPALIUS. OK. Let me jump to one other subject right quick. I would like to have your input. In listening to your testimony, I found one thing that was kind of interesting that was missed. That is that today in this country, women own 40 percent of the small businesses but obtain only 8 to 10 percent of SBA financing.

We have even gone to the point of we cut—we had in demonstration programs $1.5 million available to help women across the country to establish small businesses, we cut that funding to $500,000. Instead of being, I think, aggressive in trying to help women in this country obtain loans through SBA and also receive training, we are probably taking a step backwards, and I would like to get your input, your opinion on that.

Mr. COHEN. Well, those statistics were not in my testimony, but I agree, I think women business owners are a great part of the future of our economy, and whereas we should be doing whatever we can to support women business owners, minority business owners, I don't have the magic formula, it is not within my expertise to develop just how that implementation is to take place.

Mr. SARPALIUS. Can you tell me what your organization is doing to help women in businesses?

Mr. COHEN. First, I want to say I am proud Swe are here in Washington today or this—our annual Washington presentation is taking place, and for the third or fourth year consecutively, we have done this in conjunction with the National Association of Women Business Owners.

Our relationship with that organization is very deep and runs through all barriers. We support them in all of their efforts to obtain these specific aids. Our goal and mission is probably more generic and whereas it is very inclusive, we are not specifically doing more than giving our support to the individual efforts of organizations who are dedicated to those purposes.

Mr. SARPALIUS. But your organization in itself does not provide any type of training or any assistance or help?

Mr. COHEN. Our organization is primarily an advocacy group and we don't provide training. We don't have the facilities. I want to say that many of our—I mentioned we have affiliate organizations that belong to us as organizations.

I am proud wearing another hat to say that I am a member of the Council of Smaller Enterprises in Cleveland, Ohio. We have very extensive education programs, and I know that that organization has very active training programs for women and minority business owners. We have tried very hard on a local level to do that outreach. It is not part—training is not part of our mission as a national organization, and so we do not have any programs that address that specific issue.

Mr. SARPALIUS. Well, my concern is that there are organizations out there that help provide that training for women who are trying to get started in small businesses, and is it in the best interest for us to turn around and cut the funding for those demonstration programs that are there to help assist those women in small businesses? That is what I am searching for, is there other programs out there besides what the Government provides for them?

Mr. COHEN. Sir, I wish I could answer your question and I wish I could say that funding should be quadrupled in order to accomplish this. From a pragmatic standpoint, we know that funding is not always the solution to problems, and because I don't have specific knowledge, I can't specifically say that it is inappropriate to cut funding.

I would say that there is a need out there, and we should be giving financial and other support to any legitimate group that is trying to address those needs, but I really do not have enough answers to give you affirmative support.

Mr. SARPALIUS. Thank you.

Chairman LAFALCE. Thank you.

Mr. Kim.

Mr. KIM. Thank you, Mr. Chairman.

I have a question for both of you on this 503 Program. I understand that the program has a severe prepayment penalty, so severe that a business may decide not to pay off and continue to carry on the books, it becomes an obstacle to expand their businesses, even exporting perhaps.

And Mr. Cohen, your statement said that this is very unreasonable and on today's market should be more reflecting of today's market rate. Mr. Rumfelt, you said that you have got to get rid of this prepayment penalty totally.

My question to you, Mr. Cohen: What would be a reasonable rate in your opinion?

Mr. COHEN. Well, the formula under the 504 Program calls for—and under House bill 4298 calls for charging of 1 year's interest, so therefore, as a loan becomes amortized, the interest becomes less, and it is a smaller amount. Whereas I think that is a high number, I do think it is reasonable.

Possibly it isn't clear that these programs were in the early and mid-1980's, and there are interest rates approaching 16 percent that are stifling some of these individuals, and almost in every case, the reason for refinancing is to expand the amount of money borrowed.

When you have a term loan and that supplies funds for your business, as that loan ages and these loans have got to be at least 7 years old, as that loan ages, the principal is reduced and all of that principal reduction has come out of the capital of the company, and those business owners have a real need to be able to replace it, maybe just to go back to the original amount of the loan, but they are caught between a rock and a hard place because of this extremely onerous penalty that was believed to be reasonable when it was put into the law because I don't believe anybody foresaw that market rates were going to fluctuate so much over a short period of time as they have, market interest rates.

Mr. KIM. What is a reasonable rate; 10 percent, 20 percent prepayment penalty? What would it be in your opinion?

Mr. COHEN. Well, certainly in conventional loans today, 10 percent is a higher rate than I had ever heard of. Typically they are 4 or 5 percent of principal. If you pay 1 year's interest rate on this and you are paying at 15 percent, you are paying a 15 percent prepayment penalty. That is a high rate, but in dollar amounts, it may be doable.

To adjust a loan over the course it has yet to run from 15 percent to 7 or 8 percent and to make up that difference in cash often comes to 60 or 70 percent of the principal.

Mr. KIM. Mr. Rumfelt, do you accept that, the 4 or 5 percent instead of getting rid of the whole thing?

Mr. RUMFELT. I think my comments were that we would refer as an association—and, of course, this is also my personal view—that prepayment penalties are something that should be considered as to whether or not they are a viable option for a business owner, and that the reason for this is that so many of our conventional loans today can be obtained without any type of prepayment penalty. It would make certainly sound business practice to allow borrowers to prepay moneys that has been borrowed from the Federal Government without penalties in order to replenish funds and make available to others.

I know that successful business owners that have endured the decade of the 1980's and have been paying these higher interest rates, there certainly should be some concessions to allow them some relief on that particular program, but in general, I am not sure there is a real legitimate reason to penalize a particular business owner that has borrowed money that is successful and that has the additional capital available that would like to repay his loan why he would have to be penalized to repay that.

Mr. KIM. The reason I am asking this question is perhaps we may be able to submit an amendment to strike this language out or insert some kind of fixed rate rather than an entire year's payment of interest. That is too severe. Does that prepayment penalty also apply to the 7(a) Program or just 503?

Mr. COHEN. I don't believe that they have a similar prepayment penalty in the 7(a) Program.

Mr. KIM. Why is that? We have one set of rules in a certain loan and we don't in the other. I don't quite understand it.

Mr. COHEN. I think that it involves the remarketing of those securities and, like I say, I hope we don't get too technical because I don't fully understand all the intricacies of these dealings, but I believe that loans are participating with commercial banks. I know that the 504 Program is an add-on to a commercial bank loan.

Those loans then I believe are bundled and they are sold on the open market, and I believe the prepayment penalty is there to make those loans more marketable, but that is just my personal opinion. We are assuming that there is a purpose for those prepayment penalties, and like I say, the issue in this is to moderate them.

Certainly, if you are going to reduce it to 4 or 5 percent, then I would suggest that you have a similar amendment to the 504 Program because it would be equally wrong to be issuing new loans today at a higher rate than the relief you are giving old loans.

Mr. KIM. An additional comment on this, Mr. Rumfelt?

Mr. RUMFELT. I really do not have any more that I can add other than what has already been stated.

Chairman LAFALCE. I want to thank the panel very much for their participation. I am going to refrain from asking any questions because we have a great number of witnesses on the next panel, but I thank you very, very much.

Chairman LAFALCE. I would ask panel number two to come to the witness table, please, Mr. Frank Hoy, the chairman of the Central European Small Business Development Commission; Ms. Mary Ann Campbell, the chair of the National Women's Business Council; Alan Patricof, the chairman of the White House Conference on Small Business; Mary Jean Ryan, Associate Deputy Administrator for Economic Development of the SBA.

Ladies and gentlemen, we will include the entire testimony that you have prepared and submitted to the committee in the record. We would ask you to summarize it, and again, hopefully, confine your remarks to 5 minutes, but under no circumstances no more than 10.

We will begin with Dr. Hoy.

TESTIMONY OF FRANK HOY, CHAIRMAN, CENTRAL EUROPEAN SMALL BUSINESS DEVELOPMENT COMMISSION

Mr. Hoy. Mr. Chairman, Mrs. Meyers, Mr. Sarpalius, thank you for inviting me to present testimony to you regarding the Central European Small Business Development Commission. My name is Frank Hoy. I am Dean of the College of Business Administration at the University of Texas at El Paso.

Today I am here in my role as Chairman of the Central European Commission. I would like to describe the current status of commission activities and respond to any questions that you may have.

The commission was conceived by Congress and established by Public Law 101–15 in November of 1990. It was created to assist Hungary, Poland, and what was then Czechoslovakia in their transition to market economies by developing self-sustaining programs providing management and technical assistance to small businesses.

The members of the commission are Dr. Dan Fogel, representing the American Association of Universities; Ms. Irene Fisher, representing Small Business Administration; and myself, representing the Association of Small Business Development Centers.

In fiscal year 1991, the commission was charged with three tasks: One to determine the needs of small businesses in the designated central European countries for management and technical assistance; two, to evaluate appropriate small business development center programs which might be replicated in order to meet the needs of each of such countries; three, to identify and assess the capability of educational institution in each such country to develop a small business development center type program.

These tasks were completed and reports submitted to the commission by October 1991. In fiscal year 1992, the commission was required to review the recommendations of the contractors, then formulate and contract for the establishment of a 3-year management and technical assistance demonstration program.

The commission followed through on this mandate, identifying three host institutions for demonstration programs in Poland and two for programs in Hungary. Due to political instability in Czechoslovakia, the commission was unsuccessful in identifying an institution in which we had sufficient confidence to select for a demonstration program.

As you know, at the end of 1992, Czechoslovakia split into the Czech Republic and the Slovak Republic. Directors for the centers in Hungary and Poland were hired and brought to the United States for 6 weeks of intensive training at the South Carolina Small Business Development Center. All five centers were officially opened in November 1992. Thus, they have now been serving clients for approximately 18 months.

Although the centers have been adapted to their respective countries and cultures, they sufficiently resemble U.S. SBDC's for the commission to require our contractors to use reporting standards mutually devised by the SBA and the ASBDC.

On July 20, 1993, Erskine Bowles, Administrator of the U.S. Small Business Administration, testified before this committee in support of the commission. I have also attached letters that are examples of the kinds of correspondence that we have been receiving by people dealing with the centers in Hungary and Poland.

The commission was charged with supporting a 3-year demonstration program in central Europe. The original legislation authorized $16 million for this effort. Actual appropriations total $5 million. At the end of this fiscal year, the centers will have delivered services for 2 years.

Speaking on behalf of my fellow commissioners, I urge Congress to appropriate funds to the commission for 1 additional year. In 1993 Congress reauthorized the commission through fiscal year 1996 with a recommended appropriation level of $2 million per year. The minimum level of funding to complete the demonstration programs would be $1 million for 1995. Funds would be used for a final year of support for the centers and for strengthening support networks within the host countries. The funds will both solidify our efforts, increasing the probability that the programs will survive the termination of United States funding and will send a message to the governments of Hungary and Poland that the United States fulfills its commitments.

Finally, I want to advise you that although we have not had sufficient funds to sponsor a program in the Czech Republic, Masaryk University in Brno has created its own small business assistance center with our encouragement. Through our contractor in Hungary, we have provided management and technical advice and some financial support. We continue to seek support for Masaryk University and our five centers from numerous sources.

If an additional $500,000 were allocated in fiscal year 1995 and again in fiscal year 1996, we could designate a demonstration program in Brno and see it through to completion. We have maintained contact with potential host institutions in the Slovak Republic and could, if desired by Congress, conduct a demonstration project in that country with another $500,000 allocation for fiscal year 1995 and fiscal year 1996.

Thank you, Mr. Chairman. I will be pleased to respond to any questions you or members of the committee may have.

Chairman LaFalce. Thank you very much. We will refrain from questioning until we have heard all the witnesses.

[Mr. Hoy's statement may be found in the appendix.]

Chairman LaFalce. Our next witness is Mary Ann Campbell, the president of Money Magic, Inc. from Little Rock, Arkansas, and the chairperson of the National Women's Business Council. Good to have you.

TESTIMONY OF MARY ANN CAMPBELL, CHAIR, NATIONAL WOMEN'S BUSINESS COUNCIL

Ms. Campbell. Thank you, Mr. Chairman, Congresswoman Meyers, and members of the committee. I am Mary Ann Campbell from

Little Rock, Arkansas, and on March 12, 1993, President Clinton appointed me to chair the National Women's Business Council. I have been serving on this council for 4 years, so it was a great commitment that I accepted the chairmanship and believe wholeheartedly in the mission of this council and what we have done.

What I wanted to briefly tell you is what we have done so far, what we have done this year, and what our vision for the future is.

I am a financial planner, so fiscal responsibility is also very important to me and how the money is spent and how we leverage those dollars, so one of the things that we first did that we had never done before is that we had a strategic planning session where we brought to the table many women's organizations, the representatives of those organizations that represented hundreds of thousands of women business owners.

With that group's help, the members then met and refined the plan and the members unanimously voted on the strategic plan for this year. We adopted goals that were far-reaching, and those goals were to increase procurement opportunities to women and to increase capital opportunities for women. Women need money and women need business.

So we also realize that we need data, and it is very difficult working on 7-year-old data, so we were fortunate and appreciative when Secretary Brown accepted the vice chair of this council. Not only did he accept it, he has been there for us.

We are very pleased to have the stars aligned, you might say, where we do have an incredible SBA Administrator who has given his advice and counsel and been there for us, a wonderful vice chair of this council who has helped us with the data collection, who has helped us to have a consensus, so we are working on that, and we likewise have really tackled the problem of access to capital with our partner from the Federal Reserve, Dr. Susan Phillips, one of the governors there is serving with us and has shared their resources very graciously.

We are attacking very innovative programs on access to capital. There are only two programs in the Federal Government that really directly address women business ownership, and one is in SBA, it is a terrific office. Betsy Myer works very well with Amy Millman and myself, Erskine Bowles, all of us communicate, we work together. The one thing we try to do is not duplicate our services and look at what we can do.

The National Women's Business Council has a broader scope. We are working very hard to work with this network group. We have just brought them back in this Monday, it is the second year we have gotten together. This year the table was broadened, more groups are represented. We had 15 groups represented. Many of those representatives are in this room today, they are there for us, they are interested. They are the constituency.

We have gone to where the customers are to find out what they need, what we can do to really profoundly affect the bottom line of women business owners. So that is what we feel like still has a lot of work to be done.

Chairman LaFalce, it was you who originally authored and sponsored the original legislation due to your hearings, and I believe—

I know you are sensitive to this issue, and I know you know a lot of the benefit that comes from this, and I am all for leveraging dollars and we feel like we are and we feel like there is more work to be done, and we are available for questions.

Thank you very much.

[Ms. Campbell's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Ms. Campbell. I am sure your husband was very proud to hear your testimony and see you assume the position of chair of the National Women's Business Council. Is he here in the room?

Ms. Campbell. Mr. Chairman, I appreciate that. It is our 20th wedding anniversary today. It is so kind of you.

Chairman LaFalce. I have read your testimony. I wish you a happy 20th anniversary today, May 4, 1974.

Ms. Campbell. Thank you. Mr. President told me you were a sweet man. He knew what he was talking about. Thank you.

Chairman LaFalce. I am known as a Watergate baby and you are a Watergate couple, anything that happened in the year 1974.

Chairman LaFalce. Our next witness is Mr. Alan Patricof, Chairman of the White House Conference on Small Business.

Mr. Patricof, delighted to have you here.

TESTIMONY OF ALAN J. PATRICOF, CHAIRMAN, WHITE HOUSE CONFERENCE ON SMALL BUSINESS

Mr. Patricof. First, let me extend my best wishes to you on your wedding anniversary.

Chairman LaFalce, Congresswoman Meyers, and distinguished members of the House Committee on Small Business, my name is Alan Patricof and I am Chairman of the White House Conference on Small Business Commission.

It is my pleasure to be here today before you to report on the progress that we have made on the commission since I took over this leadership of this group last September. I am happy to tell you that we are now at the point where, in less than a month, specifically June 2, we will initiate the first of 59 State conferences.

The first conference will be in Wilmington, Delaware, and we will go on with some interruptions during the period for slowing down the process and then accelerating it. It will culminate in May of 1995, and then we will be followed by the six regional conferences, leading all to the final national conference from June 11 to 15 in Washington, DC where we will hold the national conference.

We are hoping and doing everything we can to extend maximum outreach for participation in these conferences, and while we have no firm handle on the number, we do expect, based on past experience, that we will have as many as 40,000 to 50,000 people attending the various State conferences as we go around the country.

We are hoping that we will, through our program of extensive outreach to all associations and groups that may not have been reached in the past, that we will encompass every constituency and every element of our society that is participating in the small business movement.

The staff of the conference is now very close to being its full complement. We hope that we will be able to keep the number substantially below that we have had in the past. Our full-time staff should be around the 30 level. I believe, in the past, it has been as high as in the mid 50's, and the reason we have been able to do this is we are relying on outside sources to do things on an interim basis where needed, and to rely on interns and rely on support from various agencies to lend people to the staff and also to rely on electronics and the sophistication that is now available to us that perhaps has not been available in the past.

We have received extensive support from the various committees, including this one, I am happy to say, and particularly from Tom Powers and Jennifer Loon who have really been helpful to us in the start-up process since we started from ground zero. Also the Office of Advocacy, even in the absence of a permanent chief counsel, has been extremely helpful, and without their support we really couldn't have done this.

In particular, I am really happy to give you today, you are about an hour behind when I have gotten a copy, this is the first edition of the small business issue handbook which will become the basis for the discussion at the conferences, and will be given to every participant. As I say, it is just off the press. I brought you a limited group for today.

Obviously, we will make it available to all the committee members, but we are giving them as we get them ourselves. The issue handbook, I think you will see for yourself, if you compare it with past years, not to make any references to previous activities, but I think you will see this is a product of the 1990's, and we hope that it will encourage people to use it as a very valuable tool.

As you know, it was based on the more than 14 task forces that we held during the end of the year which had a very, very broad participation of approximately 350 people, which was far in excess of which had ever been pulled together before to discuss these issues.

The President has recently issued a directive to the heads of the executive departments and agencies soliciting policy initiatives on small business, and we are hopeful that we will get one or two potential new initiatives from the various agencies to whom he sent this, and we will be sitting down with the administration shortly to talk to them about their participation in the conference process.

Most particularly, we are here today to talk about our budget. The legislation specifically provides that we have approximately $5 million over the course of the 2 fiscal years. As you know, since the commission did not actually become operational until fiscal year 1994, no funds are expended in fiscal year 1993, thus $2.49 million, which was appropriated for fiscal year 1994 with an additional $2.49 to be appropriated for fiscal year 1995, this amount will not cover the entire cost of the conferences, and I want to be very forthright in saying that as we had from the outset.

The legislation does provide that we can collect modest registration fees which will go a long way toward helping the process, if we have in effect 40,000 people particularly. Also, the SBA has determined that we can utilize its gift acceptance authority to support the conferences, and we have begun that process of developing some outside support on a totally—not nonpartisan, but a basis where it is not specifically a partnership by any specific corporation but just a general support for the whole conference process.

For example, the cost of an opening inspirational video, the issue handbook itself, the registration brochure which I actually have a copy of here today, also, which I think all of you have received in the past which has now been distributed all around the country, we are getting some assistance for it.

We have introduced a new idea to the conference this year which is to put out a research study which is going to be entitled, "Prospects for Small Business and Entrepreneurship in the 21st Century," which will also have outside support and is going to be the first time that the conference will attempt to do some macro study of the issues as opposed to dealing with the day-to-day problems of small business.

We are going to deal with the much broader picture of where small business is going in the next decade. As I say, we have had a very tight budget, but we have been trying to be fiscally responsible, and have set up the internal procedures to keep track of all our costs and are very mindful of what our current expenditures are and are working very closely with the SBA and the acting comptroller and reporting to the various appropriate authorities.

As noted, Congress has appropriated $2.49 million for our activities in fiscal year 1994. However, due to the compressed conference schedule, starting the State conferences in June of 1994 rather than April as originally had been planned, and now ending in June of 1995.

Only one-third of the State conferences will be held by the end of this fiscal year. Accordingly, we do not expect to use our entire appropriation in this fiscal year. However, since two-thirds of the State conferences, the regional meeting and the national conference will fall next year, we fully expect that, obviously, the expenditures will be used and we will exceed next year the amount that was or is to be appropriated.

In light of these projections, we are asking the committee, along with the House Committee on Appropriations, cooperation. We respectfully request that the fiscal year 1994 funds that we do not spend that would otherwise lapse be reallocated to 1995, and that this would not affect in any way our total 2-year appropriation of $4.98 million.

Our staff is prepared to work with you to identify how much more fiscal year 1994 money would be returned and how much extra 1995 money will be required. The total budget, as we have it today, actually will be $9,148,000. Now, that seems obviously a lot larger than the $5 million, but keep in mind that that $9 million is offset not only by the appropriations, but by approximately $1.5 to $2 million that we will get from the registration fees, so that the difference is about $2 million where we expect to get it from the various gifting sources.

We certainly plan to keep you informed of the recommendations resulting from the State conferences, and we think a lot of these will be of such a nature that they may be considered appropriate to consider them even before the conference is completed, and we shouldn't all just sit and wait until September 1995 if things occur because this will be a living, working process.

We look forward to working with you as the process continues. We hope we can count on your offices to help promote the conferences and encourage small business people to register and run as delegates and participate in the issues section so we can all find out what are the 10 most important issues on people's minds.

Actually, I think we are going to shoot for a little more than 10 which, based on the past, has been sifted out from about 2,000 that come up during the process of these conferences, but we will try to come out at the end with certainly less than 60, which was the number that was focused on last time.

This concludes my testimony. I would be happy to respond later to any questions you might have.

Chairman LAFALCE. Thank you very much.

[Mr. Patricof's statement may be found in the appendix.]

Chairman LAFALCE. Our final witness is going to be a representative from the SBA, Mary Jean Ryan, who is the Associate Deputy Administrator for Economic Development. Ms. Ryan, delighted to have you with us.

TESTIMONY OF MARY JEAN RYAN, ASSOCIATE DEPUTY ADMINISTRATOR FOR ECONOMIC DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY ELIZABETH MEYERS, OFFICE OF WOMEN'S BUSINESS OWNERSHIP, AND IRENE FISHER, SBA MEMBER OF THE CESBDC

Ms. RYAN. Thank you very much. Good morning. Also I wanted to just mention that with me this morning from the Small Business Administration is Irene Fisher, the Director of our Office of International Trade and Betsy Meyers, our Director of our Office of Women's Business Ownership.

Chairman LAFALCE. I might add, I believe, Ms. Ryan, this is your first appearance solo on behalf of the SBA before this committee.

Ms. RYAN. This is true.

Chairman LAFALCE. You did accompany Cassandra last week or the week before as I recall, but we are delighted to have you here.

Ms. RYAN. Thank you very much. I appreciate your invitation to testify this morning about two ongoing programs related to the work of the Small Business Administration. I also appreciate your invitation to offer comments on H.R. 4322, the recently introduced legislation which would increase the fiscal year 1994 authorization level for the development company program from $1.2 to $1.5 billion.

My prepared statement highlights some of the goals and the recent accomplishments of both the Central European Small Business Enterprise Development Commission and the National Women's Business Council. However, Mr. Hoy and Mrs. Campbell spoke very thoroughly about the accomplishments of their respective groups, so in the interest of time, I am not going to repeat ground that they already covered.

SBA recognizes the significant contribution that both of these organizations have made in the case of the Women's Business Council to assisting small enterprises owned by women and in the case of Central European Commission in developing an entrepreneurial culture and business assistance infrastructure in the emerging market economies of Eastern Europe. However, SBA is faced with a number of very difficult budget decisions and choices for fiscal year 1995, and in many program areas we have had to eliminate all or part of valued programs and activities. Given these budgetary constraints, SBA was unable to request funding for all of the current programs which have considerable merit. Again, in the interest of time, I would like to just make a few additional comments on the three topics that I am addressing today.

First, on the Central European Commission. Since its inception in 1990, the commission has received its funding through the SBA's annual appropriation bill. Beyond this, SBA has no formal official relationship with the commission, although the enacting legislation provides for appointment by the SBA administrator of one member of the three-member commission.

Irene Fisher, I mentioned, is here with me. She is SBA's current appointee commissioner.

As you are aware, SBA did not request funding for the commission in the fiscal year 1995 budget. SBA certainly acknowledges there are many, many good reasons which would argue in favor of funding the commission in 1995. However, in putting together the 1995 budget, SBA faced a number of very difficult budget choices. Despite the proposed cut in the commission, I do want to assure you that SBA has a very ambitious international trade agenda.

Chairman LaFalce. When you say cut, you mean the elimination, do you not?

Ms. Ryan. Correct.

Ms. Ryan. SBA has a very ambitious international trade agenda, much of which is outlined in the President's national export strategy which was developed with some considerable SBA participation in the Interagency Trade, Promotion, and Coordinating Committee work.

A lot of our international trade activity is also reflected in the proposed authorization package which you introduced as H.R. 4297. By not requesting funds for the commission, the SBA is not backing off from its international focus. Rather, the agency's proposed budget reflects our belief that our primary duty is to the domestic small businesses which need very badly trade assistance and financing in order to pursue international markets.

I would like now to make just a few comments regarding the National Women's Business Council. Like the Central European Commission, the National Women's Business Council is an independent entity. the council reports directly to Congress and receives funding through the SBA appropriations bill. Even though the council is independent of SBA, we have always participated with the council.

At times, the SBA administrator has chaired the council, and the SBA's Office of Women's Business Ownership has certainly worked very closely with the council on many initiatives. It is working very closely with the council today to increase opportunities for women business owners.

Currently, as was mentioned, many of these initiatives include working on the problems of access to capital, improving opportunities for women in Government procurement programs, and developing a better understanding of women business owners through much better data collection.

Much ground work to implement all of these initiatives has started. Since 1990, the council has received approximately $500,000 a year. As was previously mentioned, SBA had to make many difficult choices in the 1995 budget submission, and the decision not to request funding for the council is illustrative of one of the tough choices that we had to make, even within the tight budget environment.

We at SBA are trying very hard to address the issues facing women business owners' response to the demand for capital expressed by women business owners. We recently initiated a women's loan prequalification pilot program in 11 cities, an effort that we hope will yield very positive results for women business owners.

We are also pushing very hard to expand our Low Doc pilot program which makes 7(a) loans under $100,000 using a one-page application. This is an effort that is aimed at streamlining the paperwork associated with the loan approval process.

Preliminary results from this pilot look very promising for women business owners. Eighteen percent of the loans made in the pilot so far have gone to women. In addition, women comprise 45 percent of the borrowers in our Microloan Program, which we are also proposing to expand. The Microloan Program provides financing of $25,000 or less to very small and often start-up businesses.

Finally, Administrator Bowles is negotiating with each district director very aggressive goals for loans for women.

Also, for the record, I think it is significant to note that during 1993 our resource partners on the Small Business Development Center and SCORE offered considerable percentages of their training and counseling resources to women. Combined, they provided training to 180,000 women businesses or women seeking to start a business and counseling to approximately 124,000 women. That is about 40 percent of the clients that they serve.

Before concluding, I would just like to make a couple comments concerning H.R. 4322 which would raise the fiscal year 1994 authorization level for the certified development loan programs, usually known as the 502 and 504 Programs. We are requesting that that legislation request that the authorization be increased from $1.2 to $1.5 billion, and we are fully supportive of this proposal.

The appropriated level in 1994 for 504 Program is $1 billion, and at the current rate of loan approvals, that will not be sufficient to meet the needs of the borrowers through the end of this fiscal year. We are predicting that 504 authority will be depleted by early to mid July and 502 Program has been authorized for $40 million, and each quarter we are running out of 502 money early in the quarter.

I know that you know more than anyone about 504 and 502 Program, so I won't dwell on all the features, but I would say that the 504 Program is one of the best bang for the buck programs in terms of loan programs. It has a very, very low subsidy rate, leverages considerable private funds and has proven itself to be a great program to stimulate job creation. The usage in the program is increasing dramatically, demand is up, approvals in 1991 were $457 million, $622 million in fiscal year 1992, and $814 million in 1993, and through April of this year approvals totaled $664 million, which is a 66 percent increase over the first 7 months of last year.

Last week, we provided testimony on H.R. 4297, and in that testimony we presented the request for the authorization levels for

1995 for the 502 and 504 Programs at $2.3 billion, $3.8 billion for 1996 and $5.7 billion in 1997.

We very much appreciate your continued support for the development company programs and we would look forward to working with you to pass H.R. 4322. Thank you very much for the opportunity to comment.

[Ms. Ryan's statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much, Ms. Ryan, and let me thank everyone for their fine testimony today. This is a difficult hearing for me in a number of respects. I have a lot of my children at stake here, the Central European Development Commission, the National Women's Business Council, 504 Program, et cetera. The whole concept of the White House Conference on Small Business started before me, but certainly I worked very hard to enact the legislation for the upcoming conference.

I am particularly troubled by the fact that the administration has found it necessary to call for the elimination of funding for both the Central European Commission and the National Women's Business Council, and there is a natural reluctance on my part to pull the plug and go along.

By the same token, this was a tough choice for the SBA, and it is going to be a tough choice for this committee because if we do not, then what are we losing insofar as other loan programs is those moneys are going to be used for subsidies rather than loan programs, et cetera, et cetera.

The same is true for the prepayment penalty in Section 503. I authored legislation in one Congress that was vetoed by the president to deal with the problem of the prepayment penalties, and now we have convinced the President to come up with $30 million to deal in part with that program. Then of course the question is: Should we use the totality of that $30 million to deal in part with that program or should we use it to ameliorate other cuts or buttress other programs, too?

These are difficult choices where the committee is going to have to make a collective judgment. So the questions I ask may be difficult for you to answer, they are difficult for me to ask, and I take no pleasure in asking them or receiving your answers, but I must do it, so is it Mr. or Dr. Hoy?

Mr. HOY. Either is fine.

Chairman LAFALCE. Dr. Hoy, is the program well enough established that you have five equivalent SBDCs in Poland and Hungary, correct?

Mr. HOY. That is correct.

Chairman LAFALCE. Can they swim on their own?

Mr. HOY. An excellent question. I have not been over to lay hands on those programs since they have started, and we are scheduled to go over and take a look at them in June and July. They were started in November of 1992. That is when they had the doors open.

Chairman LAFALCE. What type of evaluation of those programs have we had since November of 1992?

Mr. HOY. We have collected information on the number of cases counseled, the number of people attending programs, some satisfaction information, some follow-up information on case-by-case basis of those, as I mentioned in my testimony, using pretty much the same standards the SBA uses to evaluate SBDCs in the United States. At this time, the feedback is positive and we have national advisory councils set up both in Poland and Hungary that include ministers and, in the case of Hungary, includes the president of Hungary on our advisory council, so we feel we are developing support.

But when we opened those centers, we told the various ministries that it would be a 3-year demonstration project and they would have that opportunity to see whether or not this program would work. We feel we are on track.

Chairman LaFalce. Those programs aren't using any U.S. moneys, are they?

Mr. Hoy. Yes.

Chairman LaFalce. The moneys that we appropriate are being used overseas or just being used to fund you?

Mr. Hoy. No, they are being used to fund those programs. We are using those both to partially operate the programs. We are not completely funding those operations. We are expecting in kind contributions.

Chairman LaFalce. Well, how much moneys are being used? What are the names of those programs in which cities?

Mr. Hoy. In Poland, we have programs in Warsaw, Lodz, and Gdansk. In Hungary——

Chairman LaFalce. At which universities? Are they all at universities?

Mr. Hoy. At Warsaw, the host institution is the Polish Chamber of Commerce, and in Lodz and Gdansk they are polytechnic universities. In all three of those, we have advisory councils, though, with involvement of several organizations supporting the local centers.

Chairman LaFalce. Is there any documentation you can give me on each of those operations and exactly how much money has been expended?

Mr. Hoy. Yes, sir, absolutely. Our annual report for 1993 is in print even as we speak and is due to be issued next week, so I will actually have a complete copy of our annual report for 1993.

Chairman LaFalce. I would like something no later than next week, whether it is the printed version or this version you submitted to the printer, so we can have that.

Mr. Hoy. You will have that.

[The information may be found in the appendix.]

Chairman LaFalce. What do you have in Hungary?

Mr. Hoy. We have centers in Pecz and Debrecen, both managed by consortium, headed by the city governments but involving local educational institutions, chambers of commerce, and other associations.

Chairman LaFalce. Is any United States agency also involved in those specific locations or projects? Is U.S. AID involved?

Mr. Hoy. U.S. AID has been informed of our operations. They are not actively participating in any of these programs.

Chairman LaFalce. Is there any United States entity that is involved?

Mr. Hoy. Not directly.

Chairman LAFALCE. Well, when you say it that way, you make me think that they may be involved indirectly and I would like to flush that out a little bit.

Mr. HOY. We have done some joint projects over there with the Peace Corps with some financial support organizations, the Polish-American Fund and a Hungarian-American Fund.

Chairman LAFALCE. If we were to comply with the administration request to eliminate authorization for the program, could those start-up efforts continue? Do you think it would mean the cessation of the efforts or it could mean their continuation?

Mr. HOY. I think the probability of their continuation is increasing on a daily basis. I would not want to guarantee it to you today, but part of what we are doing through our contractors is trying to ensure both local support and other types of international funding to ensure that these programs will continue.

Chairman LAFALCE. All right. Now what have you been able to do since the establishment of the Czech Republic and the Slovak Republic?

Mr. HOY. Since the two countries split, we have been in contact with Masaryk University in Brno which was identified as a prospect by our original contractor as a host institution. The rector of that university has on his own initiative launched a small business development center type program, and in conjunction with that, we were able to slice off a little bit of money this past year to send a consultant over to work with Masaryk University and to provide them some direct funding to help get their center open.

Chairman LAFALCE. Thanks. I have many more questions of all the panelists, so don't think you won't have the opportunity, but I wanted to move to some other members. Before I do, Ms. Campbell, you mentioned that there were representatives of a number of women's organizations who were in this room, and because of deference to them, I wonder if the representatives of the separate women's organizations could please stand and identify yourselves, please. Wonderful.

Could you give us your names and the organizations you are with.

Ms. HAGER. Susan Hager, National Association of Women Business Owners and the National Foundation for Women Business Owners.

Chairman LAFALCE. Thank you very much.

Ms. BLASE. Shirley Blase, Women Construction Owners and Executives.

Ms. CARROLL. Cecilia Carroll, National Association of Women Business Owners.

Ms. WEIS. Arlene Weis, National Association of Women Business Owners.

Ms. PERKINS. Deattra Perkins, American Women's Economic Development Corporation. I am the director of the Loan Packaging Program.

Ms. SURYAN. Kate Suryan, Businesswomen's Network.

Ms. FRASER. Edie Fraser, the International Alliance and the Committee of 200.

Ms. PARKS. Candance Parks, National Federation of Business and Professional Women.

Chairman LAFALCE. Thank you very much, delighted to have you with us today.

Mrs. Meyers.

Mrs. MEYERS. Thank you. Glad to have you all here. I would like to direct some comments to Mary Ann Campbell.

I would strongly support the continuation of the Women's Business Council, and it seems to me as if we continue to need a council and the Office of Women's Business Ownership. Thirty percent of our businesses are owned by women, and yet 1.5 percent of Government procurement contracts go to women, and that is an amount of money that amounts to $200 billion, and yet 1.5 percent of it goes to women.

We get a small percentage. I am not exactly sure what it is, maybe Mary Jean could tell us, but I think it is about 10 to 15 percent of SBA financing goes to women with 30 percent of businesses owned by women. Out of 6,000 participants in 8(a) since the program began, 16 of them have been Caucasian women and only 44 have been women, a minority or a Caucasian, and 12 of those had to go to court to get included.

I mean, we do an awful lot of talk about how much we are doing for women in business, but we are just not making really any progress, and it seems to me that we need some spokesmen, and I think the Women's Business Council has done a tremendous job and is making very good progress in that regard, and think they should be continued.

Ms. Campbell, I think after kind of—I mean, it took some groping to get the council started, but then I think this year they have been very active in trying to bring more women business owners into the Federal procurement process.

Can you tell us a little bit about that and why you think that is so important? I think it is tremendously important that we participate in that, but I would like to hear from you.

Ms. CAMPBELL. Well, again, one of the first things we did was to figure out the game plan and figure out how we could use the resources we had to get the most bang for the buck. In other words, what could we focus on that would have the most profound positive effect on the bottom line for women business owners?

And we realized that it really is access to the money and access to the business, and having the correct data to know who they are and where they are and what they need and whether or not what we are doing is helping them.

So Amy—let me say our staff is the most professional we have ever had. I am very, very proud of the staff, and we have built a team. There is a real team working there, so not only do we have this public sector team that is working with us very well, we have a professional staff and our council members for the first time are truly working as a team.

We have a bipartisan council and one of our Republican members, Mary Lee Myer from Chicago, at two meetings ago—and it is in our record—she said that this council has been elevated to a new level because we are working from a road map, we are working with a policy manual, we are working with information and structure and we are working with intensity.

Now, Erskine Bowles calls the effort from women business owners the octane that drives the engine. If you want to just get octane all over you, you should have been there Monday, it was wonderful. I mean, the energy that is there, and to me this is an emerging growth group, this is not the time to hold back.

I mean, when you have an investment that is growing, that is not when you jerk your money away. It is when you—if you can see it growing, and we do, let me tell you, I would like to celebrate my 21st anniversary with my husband, and I wouldn't be this involved if I didn't sincerely believe in it because it has taken a lot of time away from my family and my business, but I honestly see it happening.

I see a profound effect possible if we continue this. I know that councils are not created forever. I look at it like term insurance, you buy it for a period, a term of time. Councils are for a term. Sometimes that term has to be recalculated, and this is one of those times.

Mrs. MEYERS. Well, I would agree with you, and I do think that it takes some time for a council of this sort to get started and get moving, and I do think that they are doing that now. I have heard more from them this year than in the past, and I would very much like to see them continue.

I would like to ask Mr. Hoy a question. I am also supportive of what you have been doing because one of the complaints that we hear, Mr. Chairman, is that a great deal of the money that we send to Russia and the Republics of the Former Soviet Union and to Eastern Europe to help them make that difficult transition from communism to free market economy, that much of it goes to consultants and that we haven't been able to track what the progress is, what really has happened because of the expenditure of that money.

It seems to me like bringing people to this country and training them and then having them go home and start their own small business development centers would be a good way to help with this transition without paying a tremendous amount of money to consultants.

Could you comment on that? What has been the overall amount that has been expended? You said your annual report will be in next week, but what is the overall amount that has been expended actually on these small business development centers?

Mr. HOY. Well, the total amount that has been appropriated for the commission has been $5 million, so that is how much we have spent essentially now into our fourth year of operation. The program that we use to train people was the Small Business Development Center of the State of South Carolina, which was a nice prototype of an SBDC for the people in central Europe to see because, in that relatively small State, geographically, they could visit a rural SBDC, an urban SBDC, an export-oriented SBDC, a textile-oriented SBDC, a high-technology SBDC, so they could see a variety of programs that would be relevant to the environments they would be working in.

They were interested and the governments of those countries were interested in having the directors come here because it added credibility to them upon their return. Being trained in the United

States gave them more legitimacy to the budding entrepreneurs that were over there.

Also the training, the 6-week training program was extremely intensive. I went down there and sat in on some of it. It was a dawn to dusk and beyond in terms of homework program covering literally 7 days a week. They were working on weekends, they were out visiting SBDCs on saturdays and Sundays, and we did that on purpose in order to instill a work ethic.

When we went over to Poland and Hungary originally, we found them making the statement that in the old socialist regime they pretend to pay us and we pretend to work, so we wanted to ensure that they understood what the work habits were going to have to be for their clients as well as for themselves in making the program successful.

Mrs. MEYERS. Well, I will be very anxious to see your annual report because I would like to see some firm results from what you have done, and I think what you are trying to do is extremely important.

Mr. HOY. Thank you.

Chairman LAFALCE. Chairman Conyers.

Mr. CONYERS. Good morning, thank you. Ladies and gentlemen of the panel and Mr. Chairman, I am delighted to be here. I was trying to put together an assessment for this administration for mostly minority, African-American women in southeastern Michigan area a description of what we are going to be doing and are doing differently from before in terms of the kinds of assistance that could be forthcoming, and so I would of course support the continuance of the business council.

But I would like to ask Ms. Ryan and Ms. Campbell and Mr. Patricof to just make an observation or two here that would guide me in how I would put together this kind of an assessment and then we will work on it after this committee hearing. Who would like to start off?

Ms. CAMPBELL. Help me to understand a little bit better what you are saying.

Mr. CONYERS. Well, I am trying to tell the women business people what we are doing different in the Clinton administration and how they are going to be helped in terms of the kind of changes and the kind of programs that they might anticipate.

Ms. CAMPBELL. There is a definite emphasis on racial, ethnic inclusion, and it has been at our forefront from the beginning. The question has been asked of our council even why we do not have an African-American woman. We do have a Hispanic woman and we do have several very qualified African-American women's names and bios ready for when appointments are up.

Mary Walker of the American Black Women Owners Association was with us yesterday, and we have—we really feel more comfortable than we ever have over the issue of a procurement with the minority community because we really have worked very hard to communicate with that community that we are not trying to get part of that pie, we want to have separate goals, and we believe very firmly in the power of partnering, and we are really enjoying a more peaceful coexistence rather than a threatening existence.

It is wonderful to have the representation at the table and to be talking together and sharing, and that is what it is all about. It has taken a real education process this year. We worked hard on it because we believe in it, and it started at my State level.

We formed a Women's Minority Council. It started at many State levels and we have been working on it for a long time. Amy and I and all the council members, all total, unanimous, are very committed to this, so we are there to discuss it and share with it. We realize there is no longer a minority council, that council did go out of business. Andre Carrington and I used to visit a lot, and we did after I came to this council.

I was saying help on many issues because he did a good job over there. I said we want to be effective and talk to me about that and how do we do that, and so it is something that we feel more comfortable than we have ever felt about that. The outreach is important.

One thing that I have really admired about the minority community that the women's community has not done, you have been very good at articulating your need. Sometimes we want to say, because we are there in number, we want to appear real big and real strong. We are there in number, but we still need help. We are 30 percent in number, we are only 14 percent in revenues. Just think of what it could mean to job creation and tax base and just stimulating the economy if we took those numbers and made them more successful, and minorities are realizing, they are hearing us that we can partner and be very powerful.

Mr. CONYERS. Thank you.

Ms. Ryan.

Ms. RYAN. Thank you. If I understood the question also, I guess I would from the Small Business Administration want to at least highlight and see, and I would be happy to research this more, but highlight the agency's Microloan Program which seems to be working well, and we are able to expand that. Hopefully more communities can participate in that, the numbers of loans that are being made under that to women.

Mr. CONYERS. We have heard good things about it.

Ms. RYAN. It seems very promising. We are also piloting a concept which we are calling a prequalification program for women business owners in 11 cities right now. We are going to be watching that very closely because what it will do is it will help the applicant find out directly from SBA that whether or not SBA would guarantee a loan.

And so then SBA would be able to issue a prequalified loan authorization which that person could then take to a bank, and we would have people who would help them connect up with the bank, and then that person could go into the bank and say banker, SBA has said if you would make me a loan of this nature, then they will guarantee it.

We hope that that would be able to cut through some of the problems because the SBA numbers of loans to women and minority businesses have not been good, so we are hoping that if we can get this going in the 11 cities, we can learn from that. Then we are thinking very seriously in the short run of trying this same approach with our 8(a) firms who SBA has really never addressed from the capital side, that we have all these loan tools that we haven't really made available to the 8(a) businesses.

And again, if that works, then we could expand this prequalification idea to much broader segment of women and minority businesses. As you know, I am sure, SBA has a role in the administration's empowerment zone enterprise community process, the applications are due from communities at the end of June.

Chairman LaFalce. I want to bring that to a brief conclusion, a temporary conclusion because Mrs. Meyers has to leave, and she had asked me a question earlier in the hearing that I think is most appropriately addressed to you, Ms. Ryan, and therefore, Mrs. Meyers, I am going to call upon you now.

Mrs. Meyers. I beg your pardon, Mr. Conyers. About the increase in the size of the 502 and 504 Programs——

Chairman LaFalce. The reprogramming most especially, you see I was hoping the reprogramming could be relatively noncontroversial, and we might even be able to move it tomorrow. I hope after your dialog, it will be what I hope it will be, noncontroversial.

Mrs. Meyers. Well, we have some problems in some SBA Programs, and it seems to me that before we reprogram money, before we increase the size, we should exercise some oversight on this committee. I just don't want to have any surprises.

Is there some way that you can bring us—I thought we were in the middle of a review of all SBA Programs to see what their status is in terms of, whether there may be some problems with any of them, and I would like to see that report on 502 and 504 before we proceed.

I don't want to delay this for a long time, Mr. Chairman, but if we could wait until next week, until we could at least maybe have a 15-minute oversight hearing, a brief review of what is happening with that program.

Chairman LaFalce. Well, Ms. Ryan is in charge of that program so maybe you can testify now. As far as I understand, it has been a very great program, there has been a great demand for it, and I don't know of any default problems.

Ms. Ryan. It has the lowest subsidy rate of all the guarantee programs. We could run you the actual loss rate data and we could have that to you this afternoon.

Mrs. Meyers. I think that would be helpful, and I think you certainly should provide that to members of the committee who may want to look at it. It is just that I feel like it is a real duty. As the Chairman knows, I am a little uneasy always with guaranteed programs because they sort of——

Chairman LaFalce. Which is basically the whole SBA.

Mrs. Meyers. Yes, the whole SBA really. I approve of the programs, I think they are good solid economic development programs, but because they tend to sort of happen over here out of sight, I think they require more oversight than this committee gives them sometimes. We really need to——

Chairman LaFalce. —have more hearings?

Mrs. Meyers. Yes, more hearings, more review of just exactly what might be happening with the default rate in the program so that we catch programs before we have a half billion dollar loss which might be staring us in the face with SBDCs. I would appreciate it if you would get that information to me and to the rest of the committee for our review.

Ms. RYAN. Sure, not a problem.

Chairman LAFALCE. Chairman Conyers, did you have any more questions you wanted to ask?

Mr. CONYERS. No, I had the same question that she was going to finish off and Mr. Patricof, this is all the same question.

Mr. PATRICOF. I am not exactly the perfect person to be qualified to answer, but in my own little way, I will tell you. First of all, I would like to take the opportunity to introduce, since there were introductions of people, I would like to introduce one of my other commission members, Gary Woodbury, who is sitting here, who is from the State of Michigan coincidentally.

Chairman LAFALCE. Not so coincidentally introduced at this moment. I should introduce the nephew of my good friend from Rochester, Judge Michael Miller, your executive director.

Mr. PATRICOF. Oh, our executive director also, Mark Schultz is here not from the State, he is from local. Just in terms of the White House Conference, I can say to you that, first of all, from our own staff, we have made a very, very concerted effort to make sure that we have a very diversified group of people and I can tell you from my own experience, this small experience, it is something you have to do very consciously and work at it, it doesn't come simply. We certainly have worked hard at it.

Second, in terms of the conference itself, as I said a little while ago, we have really gone out of our way to get maximum outreach, and again, this doesn't happen simply, you can't slow down for a second, you have to be relentless in trying to get participation from minority groups, women's groups, Native American groups and every kind of area you can imagine, and we have done that.

It is a key focus of the conference that when these conferences are held—and the one in Michigan will be held as it is in other States, and there will be two in your State—that they will have a very broad participation from the minority, from women, from every segment. If it doesn't happen, it won't be because we didn't try very hard.

Mr. CONYERS. When are they scheduled?

Mr. PATRICOF. I will just get my slip out which I think you have a copy of. April 13th, last doesn't mean worst in this schedule, which is 59 different conferences, the Michigan conference is in Dearborn on April 13th.

Mr. CONYERS. Well, that means it has occurred already?

Mr. PATRICOF. No, next April. It has not begun. It begins on June 2nd in Delaware.

Mr. CONYERS. All right. From June to April?

Mr. PATRICOF. That is correct. Then it will be followed by the regional meeting, then the national meeting.

Mr. CONYERS. Could I just conclude by asking Ms. Ryan to finish her comment?

Ms. RYAN. Just the only thing I didn't really mention was just that I would definitely want to encourage people in any community that was thinking about applying for empowerment zone or enterprise community designation to think seriously about making application within that for SBA's one-stop capital shop designation because we will be able to try to support sort of a new delivery concept where, hopefully, we would be able—at the community's request, we would be bringing together the various financing tools in one place.

And then people could have a good point of entry which has sometimes been difficult, so we would want to make sure that they were aware of that, and applying for that designation if they thought it would be helpful in their community.

Mr. CONYERS. Very good. Thank you very much.

Chairman LAFALCE. Thank you.

Mr. Baker.

Mr. BAKER. Thank you, Mr. Chairman. I want to make just a brief comment before I direct a question to you, Ms. Ryan, concerning a particular program because I would like for there to be more of a level of comfort or level of discomfort however you view the statement, with regard to my general concerns about programmatic operation across the board in SBA.

There was a recent article appearing in the press, and having said that, I recognize that it may or may not be totally accurate, but if the observations of the writer were correct, many of the programs intended to target specific beneficial groups have not worked well, in the writer's emphasis particular concern was that of minority procurement activity which did not appear to benefit minority neighborhoods nor minority applicants with great frequency.

It is also true, I think, when we look at majority-owned small business, particularly in light of base closure where small rural communities have invested resources to accommodate particular needs of a military facility which is now being closed, it would seem those communities would be targeted by Small Business Administration to help the transition that is obviously occurring in an economic manner. That has not been the case.

So that when we begin to look at the line that seems to cut through the assistance programs and the real needs of economic interests, be they minority-, women-, or majority-owned small business, true small business, mom and pops as they are traditionally called, we find that they are not being benefited nearly so often as the more successful majority-owned, fairly large corporate structure because it is easier for the business enterprise to do business with a Government entity.

The Government procurement officer doesn't want to fool with all those little bitty contracts. I think that is shown by a comment by facts in your own statement this morning where you indicate that about 1.5 percent of procurement contracts by Government agencies are assigned to women, but when you look at one of the more successful opportunities in your operation, the Microloan Program, 45 percent of applicants are women.

So it seems to support on its face the observation that it is not so much ethnic versus women versus small business, but rather small versus large. It is easier to do business with a large company than a whole herd of small companies, no matter who the ownership happens to reside with.

I am very interested in seeing significant revisions to small business requirements that tend to target a much smaller level of business interests for what is true start up activities which I think the

Microloan Program really intends to do, and simply to make the process easier, which gets me to my real question, which is the pilot program now designated for the 11 cities around the country which provides a preclearing opportunity for an applicant.

Being somewhat familiar with the loan process, the money is really spent when you go to the bank and you have to do certain things.

By the way, Mr. Chairman, I was pleased to see FDIC just recently raised the de minimis level on appraisal requirements from $100,000 to $250,000, which I think is a really big help to small businesses because that is a very large expense in today's marketplace, but I think that is one small step.

There are a whole series that should be taken to facilitate access to credit. In this case, since it is a program targeting women's interest, why are we just doing an 11-city pilot? What are the limits in having someone? What is it from a regulatory or administrative perspective that makes the preclearance concept something that needs to be studied?

That is something an individual can do before you go to the expense of going to the bank, paying for the appraisals, paying the necessary fees, and correct your deficiencies if in fact there are any before you get into the credit approval process. That makes extraordinary sense to me.

Why can't we expand it now rather than wait to see how it works? If we are concerned about wholesale expansion, I will just suggest in the case of the New Orleans pilot, you expand it to Louisiana or you expand it to a series of smaller cities around the New Orleans area because my concern once again is that the urban businessman is having a higher degree of success than the rural businessman.

And if we really want to do a pilot where it is really needed for small dollar loans, preclearance, move quick, give rural communities a chance, and then if you want to really target it, find base closure sites. Those people are dying. I think what you have started is an excellent idea and I am not being critical of it. In fact, I am very encouraged by it and I want to see you do it faster.

Can you make a comment?

Ms. RYAN. Sure. You have raised many good points. In terms of the ability to expand the existing programs to have better geographic coverage, we have left that to the local site and that each site has determined what level of territory they feel like they can do a good job with in their piloting, and then as soon as they feel like they get the process and the bugs worked out the intent is that they expand to cover the whole State.

We would hope that we could do more of this sort of thing across the board because it is, as you say, sort of how you come down on it, it moves SBA into a way to be more proactive because we can if we do prequalification type——

Mr. BAKER. Let me say it this way: If I am a banker and a woman walks in who I do not know with $3,000 and a good idea and wants credit, I am highly skeptical in today's regulatory world as to what my chances are of being repaid. However, if the same woman walks in with a letter from the SBA saying we have looked at this lady, she is creditworthy and if you make her a loan, we will guarantee it. Who do you think wins? To me it is not a question of needing further research to determine whether that is a valid proposal or not.

Ms. RYAN. We all think the proposal is very sound. I guess I think that at this point, however, there is a couple things. One, it is very labor intensive, and we have to make sure that we do a good job. We need to understand how to screen properly because there will be those situations where the person is not going to be able to be approved for either a bank or SBA, and we would do those people a big disservice.

Mr. BAKER. Don't we do those processes now? We wait until the tail end, we wait until the bank does the work and we tell them no.

Ms. RYAN. That is correct or, in most cases, they don't even get to the bank. The bank tells them no. It is the scenario of the person walking in with $3,000. What we are trying to do is intervene in that relationship and say if we work with the person and do the work of preparing the loan package properly, and we then run it through the whole SBA approval process, and we issue a draft loan authorization, so we do all our steps in the process that as you said, then that person is going to have a very much higher chance of getting that loan from the bank.

And we are working with intermediaries in some communities, they are local nonprofits, in others they are SBDC centers, sometimes they are certified development companies, they have all different skill levels. So from an administrative standpoint, we have to work through how we properly train those intermediaries so that they properly screen and package the loans so we have good quality control.

There is going to be a huge demand for this type of service, and I feel like—and I think SBA feels we should probably have been doing this for a long time, but we haven't so now we need to figure out how to do it well before we go out and do it everywhere in the country and then find out that what we are doing is not—we are saying to people, we are sending people to banks that the banks won't accept, or we are sending people to SBA that SBA won't accept, and we have to work all that out. So we are very hopeful we are going to spend a lot of time on this.

As I mentioned to Congressman Conyers, we are going to try and expand this whole effort to do prequalification for minority businesses as well.

Mr. BAKER. Mr. Chairman, with your indulgence, one more follow up. I am making this statement not for the first time this morning and it is not only specific to the current administration, so the statement will be received properly. I have made these comments over time.

We had a field hearing in Baton Rouge some time back, 2 or 3 years ago now, I can't remember the date. But in any event, I have been and remain very concerned about the level of efficiency of the New Orleans office. If I am going to wait on the New Orleans office to determine that this is a good idea, I may be waiting a while.

I will make a formal request to you directly to review the activities of the program and when in your judgment or those who would be appropriate think it is time to move, I just want to create enough pressure on the administrators of that local office operation to do what they need to do.

In my view, without regard to program content, regulation or anything else, the New Orleans office ought to be a lot more active and successful than it is, and for whatever reason, I am going to do my part more vocally to make sure that it moves to that direction no matter who the program beneficiaries might be.

Thank you. Thank you, Mr. Chairman.

Chairman LaFalce. Well, I think you made yourself pretty clear.

There are certain things you create and they meet or surpass your expectations. I certainly think that is true with respect to the 502, 504 Program. I hope that we can resolve whatever menial difficulties there may be on the part of Mrs. Meyers as quickly and expeditiously as possible because she might have greater justification with almost all the other programs.

I think this is the area where she probably should have the least problem. Sometimes, though, the approaches that you take don't meet your expectations. To a certain extent I think that is true both with respect to the Central European Development Commission and the National Women's Business Council.

When I created them I had tremendous hopes, and for one reason or another they haven't quite been what I had hoped they would be. As a matter of fact, sometimes I thought maybe that I was the only one who had them on my radar screen, that nobody else in the Congress or the administration did.

It doesn't mean that there is a lesser need, but you have to ask the question was the approach you decided upon in 1988 or 1990 in retrospect the best approach? Ought you to see it through a bit longer or is it time to—in the 6 years that have intervened since 1988, the 4 years since 1990, 3 years, really, because it was the end of 1990—to do something new and different?

Then, of course, when the administration comes in, and despite the fact it was a tough choice for them they did recommend elimination, you have to ask yourself another question, too. If anybody is going to do it, who else other than the person who helped create it? You have difficulties because constituencies build up around anything that is created. Certain constituencies are stronger than others.

You really don't have that strong of a constituency, Dr. Hoy, so we don't have the political pressures. The National Women's Business Council has created their own constituency. They didn't have much of a constituency from 1988 to the present, but they have created it in the past few months or so.

Which really raises the question to what extent can you really act effectively or to what extent do you have to respond appropriately or inappropriately to constituency pressure? Sometimes constituency pressure can be counterproductive.

But I will try to put that aside. I think the fundamental question is what is the best way to help what we want to accomplish overseas? What is the best way to help women business owners?

I am going back—your presence here, Mr. Patricof, brings something to mind. Your partner is Patricia Cloherty. I remember when Pat was deputy administrator. She was the chairperson of the Interagency Women's Task Force on Women's Issues, and I remember getting together with her so frequently, not just at hearings but privately, talking about the hard work she was putting in, the great work they were doing.

I think they had an executive director, Ronnie—I forgot her last name. Then they also had advisory councils. So many of the groups here today were advisory councils to that interagency task force.

It was my impression that that interagency task force was infinitely more effective—maybe I should scratch the word infinitely—considerably more effective than the National Women's Business Council, and I wonder if the Clinton administration shouldn't by executive order recreate this interagency task force chaired by a high-level person who herself will actually go to the meetings, each and every one of them, and chair them rather than send some rather low-level representative on occasion most often.

Who could that person be? Well, I don't know. Laura D'Andrea Tyson, perhaps, comes to mind immediately. There could be a whole slew of others, I would suppose, with advisory councils from all the different——

I am just wondering if this isn't the time to rethink, should we just be locked into the status quo because that is the approach we thought of in 1988 or might this be a time for reconsideration?

Of course, it is difficult, too, because if people exist in present jobs, they are comfortable with their present jobs. If they exist in present positions, they are comfortable with it, and naturally they don't want to change. Or they might come forth with the answer, let's do both. Let's do all.

Anybody have any comments on that?

Ms. CAMPBELL. I might.

Your points are well taken. They are excellent points.

Bear Bryant was raised in Arkansas and built a football dynasty, in Alabama, and he used to say first day of practice, get good or get gone, had a team.

When I came, when I became chair, I worked to develop a team. The interagency task force may be a better answer. You may have it. We are here in a spirit of cooperation. We are not here saying to you we have the answers. We are saying we are looking for the solutions. We know what the problem is. We know some of the answers. We want to get to the solutions.

Chairman LAFALCE. See, I think we need a focal point for the constant discussion and promotion of women's issues. I think that is very important. I don't think the National Women's Business Council has had the stature to be the focal point that I envisioned. I wanted something big. I want something that everybody would look up to and therefore say, the sun rises or falls on women's issues, and the National Women's Business Council has made this the case.

Ms. CAMPBELL. I can only give you my personal perspective, but the first 4 years there were two public sector chairs, first of all, Susan Engelighter was the first woman administrator of SBA, and her platter was totally, overwhelmingly full, and she didn't really have time for the issues of the council. It had just got started and organized, and there wasn't a lot of time, and we groped.

Then when Pat Saiki became the administrator, she was appointed the second chair, and again her platter was very full. A very dynamic, very bright woman, but she did not have the time and did not take it to devote to the National Women's Business Council.

I am the first private sector chair. I have taken the time, but——

Chairman LaFalce. I tried very, very hard to make the primary emphasis on this private sector. I tried very, very hard to disassociate the council from the hand of the SBA. I did not want it to be a tool of the SBA at all, but that has been difficult, in all candor, under both Republican and Democratic administrations. Their house, their resource, they are supported, they walk in lock step. That is not what I envisioned. If we are going to have that, I am just——

Of course, the personnel problem is a difficult problem, too. We didn't have that problem under Pat Cloherty, let me tell you. Pat Cloherty found the time. This was a big issue with her, and I thought it was extremely effective.

Ms. Campbell. I have heard tremendous things, wonderful things.

Chairman LaFalce. It was great, I thought.

Ms. Campbell. As I said, we are here in the spirit of cooperation. What I do believe, though, if you have a fire going, if you put it completely out, it takes—you have to completely start one again, and, this council could be the vehicle to help you design the task force.

Chairman LaFalce. That is why I mentioned Laura D'Andrea Tyson's name because she is not responsible for any line item agency. She is not responsible for the delivery of services. She has the ear of the President. That would be a natural as far as I was concerned, and it would also give her something operational.

Her platter is full, also. She would have to make the time. Maybe someone else in the administration would be better at this. I don't know.

Ms. Campbell. I know the President is——

Chairman LaFalce. Hazel O'Leary—there could be any number of others.

Ms. Campbell. I know he is concerned about this issue, and he cares about it. But you are right. There is no one in the administration who we can turn to who is the focal point for this constituency group. We as women business owners need that, and someone does need to be there that is institutionalized, that is effective.

Chairman LaFalce. It is very important that we have some focal point. I would not want to see the elimination of the National Women's Business Council without the simultaneous creation of something akin to what I am talking about. I think that is very important.

I do not want there to be a temporary period of time when there is a vacuum, either. I do not want to see anything fall between the cracks. We will just——

Mr. Hoy, let's switch to your agency right now. Do you have some comments that you wanted to make?

Mr. Hoy. Just very briefly, Mr. Chairman. I would just like to say that you, as I do, can take a lot of pride in what the Central European Commission has accomplished during its existence on less than a third of the budget that was originally authorized for it. You have programs on the ground functioning and developing a successful track record, and I think personally I would like to see it through to completion. I think that with one more year the legacy will remain there.

The lesson I have learned from this is what I have taught my students over the years, and that is anything worth doing is worth doing for money. I have learned, taking the position as the commissioner, that I am going to take it for money next time.

This has cost me and my institution a good bit of money and a whole lot of time over the last 3 years, but I am very pleased with what we have accomplished, and I think we have fulfilled the spirit as well as the stipulation of the law in the time that we have been operating. We have stayed right on calendar in terms of the original research in the 3-year demonstration project.

Chairman LAFALCE. What is the Peace Corps doing now in this effort to train individuals overseas in private sector development, entrepreneurial effort?

Mr. HOY. The Peace Corps is attempting to recruit and put over in place some people who are capable of working one on one with small businesses over there. They actually initially came to us asking for money to help support their operations, and our centers don't have the money to do that but are trying to work with them and in collaborative programs or even provide office space, if possible, for some of their people to work from.

Chairman LAFALCE. Good.

Alan, you came to my office a number of months ago filled with many, many ideas, hopes and aspirations. How do you view your success so far in reaching your short-term objectives from that time to the present and what are your concerns? What has pleased you about your ability to accomplish? What have been the difficulties that you have had that you wish you could have done better?

Mr. PATRICOF. It was nice of you to ask the question. I didn't expect to be asked that.

I would echo what we just heard about what is worth doing should be charged for. It takes a lot of time. That is one thing I hadn't anticipated.

Chairman LAFALCE. I told you that.

Mr. PATRICOF. When I spoke to people to get advice about taking this assignment, they hadn't factored in the fact that I started at ground zero, actually behind the time schedule, too. I would have to say that I really am very proud and pleased with what we have accomplished, and I am not just saying it to be nice because I am known for telling you how I think.

Chairman LAFALCE. I thought you were going to say you are known for not being nice?

Mr. PATRICOF. I am known for speaking up and speaking frankly. I think that issue book is something we can really be proud of, everybody who has been involved in it, and that everybody is really everybody. That was not done simply. The task forces were done and the staff has been put together. There has been a lot of bipartisan harmony. Politics have not been an niche this at all, certainly to this date.

We have really reached out every place. I think we have worked very hard to get a good schedule. We have a good staff. I was in a meeting this morning, the National Advisory Council meeting for the SBA director. It was held this morning. Someone got up and said, interacted with our staff, and how amazingly vital and excited and enthusiastic the whole staff was.

And he commented in front of this group which, obviously, made me feel very good. I wasn't there. It was nothing to do with me. But we have a group that is functioning under Mark Schultz's direction, and five of our people are here together.

I think the most difficult thing for me is I have never really acted under the umbrella of a governmental commission or dealing with this Government relations, and that is something I am getting to do and going through the process. The process for a business person, obviously, is something you have to get used to, that you have to go through the process.

And other than that I think we are right on schedule. We are trying to do a lot of ambitious things—I don't know if you really got the full extent—of doing this extra study which we are having done which I think will be very exciting. It will be a very substantive study on where small business is going in the next decade, which we put a lot of time into and which is going to have to be funded outside by foundations and corporate support.

Bringing in new technology, we have been pretty successful about getting some very exciting new ideas. When we go around the country I think people will be impressed by what we are going to introduce to the small business community to tell them what is available in the information society of what they can do without a lot of money, so we are hoping to educate people in the process. It is going fine.

Chairman LaFalce. You have a bit of a difficulty. You do not have a—right now, you have a very fine Acting Chief Counsel for Advocacy with the SBA, but you don't have the permanently appointed one. I don't know if all the regional advocates have been appointed. Perhaps there are a few vacancies still. Has that impaired your operational ability very much? Have you tried working around it?

Mr. Patricof. I think that we have had to work around it.

I think we are very fortunate Doris Freedman was the acting advocate, and no one could be more supportive and helpful, and that issue book would not have been put out without her staff.

But there is no question that having that full complement approved of the advocates and, of course, the chief advocate, which I understand it has been that way for the last several months. It is supposed to happen any second. I think the approval of the nominee would be very helpful from my standpoint because a lot—until you are—as long as you are in an ambiguous State I think it is difficult. Once I think he is approved I think we can act much more definitively.

And we do need this outreach process, and for that we look to these regional advocate offices. They are very important in helping us get the message out and even moderate staffing on the State levels.

Chairman LaFalce. Good. Miss Ryan, you are relatively new at the SBA, are you not? Or is it this position that you are new to?

Ms. RYAN. I had worked for SBA as a management trainee 10 years ago, and I left and ran a 504 company, so I am very new in this position.

Chairman LAFALCE. The Central European Development Commission comes within your general jurisdiction. We created it, and, of course, we have an SBA representative on the commission, but other than that it is private sector.

I have been increasingly concerned about the developments in the formerly Communist countries, formerly a centrally planned economy. Historically, we have seen countries go from market economies to State-run economies. We had not had much experience going from a centrally planned economy to market economies, and that is one of the reasons that I thought it would be especially helpful when we created this legislation to concentrate on three countries in particular that offered, in my judgment at that time, the optimum chances for success. Of course, this was before the demise of the former Soviet Union, too.

Some wanted to add subsequent legislation, the former republics, now independent States, but I thought that it would be just chewing off too much, and there were also a lot of programs.

It seems to me there are a plethora of Government programs that exist. Forget about this private sector commission and I don't know if there is an adequate coordinating mechanism for these Government programs. Do you have a handle on this at all? Are you aware of the other governmental programs that exist to aid private sector efforts in this type of country?

Ms. RYAN. I am not.

Chairman LAFALCE. All right. Fine.

Mr. HOY. Mr. Chairman, I might just want to mention that the State Department has been charged with playing that role, and we report to them on our activities, and USAID apparently is their mechanism for trying to coordinate activities and issue reports, describing various activities over there.

In our case, of course, we are trying to move away from United States involvement and transfer everything over to the host countries.

Chairman LAFALCE. Well, that seems to me that is what our Government should be doing, too, but assisting them.

There is something else I am concerned about, Ms. Ryan, very concerned about, too, and I just toss this out for your information so you are aware of my concern. I think that the concept of privatization is excellent. I think the concept of privatization is necessary in converting these countries to basically market economies, but I think it is filled with tremendous potential but also fraught with peril.

It has taken the past decade, and this coming decade will be an era of privatization in the Argentinas and Chiles and Mexicos of the world, the Singapores and Thailands of this world, in addition to the Polands, Hungarys, Russias, et cetera.

Privatization can have many goals, and one of its goals can be, must be, efficiency of operation, but we ought to be careful that that does not become its only goal, too. We can easily transfer a State-owned enterprise to a multinational corporation.

We need to use privatization to develop a small- and middle-sized business entrepreneurial class that is very, very important. We also need in privatization efforts to have a policy that fosters the maximum feasible equitable distribution of existing and potential societal wealth as opposed to bringing about a greater and greater concentration of that existing and potential society wealth.

I am very, very fearful that privatization has historically for the most part brought about greater concentrations. We have seen too many patron privatizations. We have seen too many nomenclature privatizations.

I think we need to develop within the U.S. Government a policy that I have chosen to term empowerment privatization, empowerment of as many individual citizens as possible and empowerment of as many small businesses as is possible. I think it is very important.

It is not that much more difficult. I think that the easiest privatization is when you are only concerned about efficiency, but that would be a short-term gain at the loss of a tremendous potential opportunity here. We have a tremendous potential opportunity, and I don't think that our Government is focusing adequate attention on it, and sometimes I don't think they are focusing any attention on that at all. I think it is very, very important.

We could go on forever, but I have got a few other things I have to do. I will do my best to work with you and work with the other Members of the committee to make the wisest, prudent judgments we can within the constraints of our fiscal resources. Thank you very much.

[Whereupon, at 12:45 p.m., the committee was adjourned, subject to the call of the chair.]]

REAUTHORIZATION OF SMALL BUSINESS ADMINISTRATION PROGRAMS

WEDNESDAY, MAY 11, 1994

House of Representatives,
Committee on Small Business,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LaFalce. The Small Business Committee will come to order.

Mea culpa, mea culpa, mea maxima culpa. I apologize for being late. Because of the lateness I ask unanimous consent to insert my opening statement in the record as if it were read.

Without objection, so done.

[Chairman LaFalce's statement may be found in the appendix.]

Chairman LaFalce. Any other Members think they can beat me in brevity in my opening statement?

Mrs. Meyers.

Mrs. Meyers. Mr. Chairman, I have an opening statement, and at least two of my Members do. Are you going to forego your opening statement?

Chairman LaFalce. I am going to forego mine.

Mrs. Meyers. Well, I will forego my opening statement.

[Mrs. Meyers's statement may be found in the appendix.]

Mr. Zeliff. I will do the same.

Mrs. Meyers. Good heavens, a clean sweep.

[Mr. Zeliff's statement may be found in the appendix.]

Chairman LaFalce. You would like to read yours?

Mr. Sarpalius. I would like to submit it for the record.

[Mr. Sarpalius' statement may be found in the appendix.]

Chairman LaFalce. Without objection, we will give everybody the opportunity to submit their opening statement as if read. Thank you very much. This is the way to proceed.

Now we will go to our distinguished panelists: First, Ms. Barbara Vohryzek, the executive director of the California Statewide Certified Development Company and also the vice president for Government Affairs for the National Association of Development Companies. Look forward to being with you.

Mr. John Shivers, president of the Independent Bankers Association of America; Mr. Dennis J. Jones, president of Hinsdale Bank and Trust but representing today the American Bankers Association; and Mr. Anthony Wilkinson, president of the National Association of Government Guaranteed Lenders.

We will include the entire testimony of your remarks in the record, too, so you may feel free to either read them or summarize them with no more than 10 minutes apiece.

Chairman LaFalce. Ms. Vohryzek.

TESTIMONY OF BARBARA VOHRYZEK, EXECUTIVE DIRECTOR, CALIFORNIA STATEWIDE CERTIFIED DEVELOPMENT COMPANY, AND VICE PRESIDENT FOR GOVERNMENT AFFAIRS, NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES

Ms. Vohryzek. You have taken 20 minutes off my speech by introducing me as vice president for Government Affairs.

Thank you. It is a pleasure to be speaking before you today. Mr. Chairman, it is particularly a pleasure since it is well known that you are recognized as the father of the 504 Program, our economic development program within the Small Business Administration.

I want to thank you and the committee for having the opportunity to comment on the fiscal year 1995 budget as well as other issues critical to the 504 Program.

For those of you not familiar with the 504 Program, its primary objective is to provide growth capital to expanding small businesses that will create or retain jobs in rural and urban areas throughout the Nation. 504 projects are typically structured with a 50 percent first mortgage, a 40 percent second mortgage through the Small Business Administration 504, and 10 percent equity through the borrower. The maximum 504 is a million dollars.

The delivery system for this program is the certified development company network. There are approximately 300 CDC's that are authorized by SBA nationwide to provide these services to small business.

I would like to address the current status of the program. The authorization for this year is $1.2 billion for both 502 and 504 or combined, rather, appropriated funds are $40 million for 502 and $1 billion for 504. It is anticipated that, based upon usage to date, we will run out of funds sometime in July because the usage to date is on a track of $1.4 to $1.5 billion.

NADCO urges the committee to increase the authorization for fiscal year 1994 to $1.5 billion as well as support an increase in the 504 Program funding through reprogramming of available and appropriate SBA funds from other sources.

In terms of the suggested budget from SBA for 1995, 1996, and 1997, we support the administration's proposal.

The 504 program has grown at an average rate of 30 percent per year over the last 3 years. This is partially due to a tightened and more conservative credit market.

The 504 Program is unique in the way that it attracts capital. This year, with our usage, we anticipate attracting at least $2 billion in private capital into the 504 projects. Additionally, the interest rates on 504 are more advantageous to borrowers than conventional financing.

Over the past 6½ years private investors who have purchased 504 debentures have become comfortable with this instrument because of its low rate of defaults and prepayments. The result has been a shrinking of the spread over the comparable treasury rate.

This spread has been reduced from 150 basis points at inception of the program to 60 basis points today.

The administration's proposal requests $2.3 billion in program funding for fiscal year 1995, $3.8 for 1996 and $5.7 for 1997. We strongly support this budget request.

The 504 Program has demonstrated that it is one of the most cost-effective job creation vehicles available through the Government. In 7 years, over 350,000 jobs have been created or retained by this program. The estimated cost to the Government per job is $50 or less. The agency has also initiated some new programs and pilot programs.

We are in full support of the administrator's attempt to not only streamline the products but also look at new and innovative products for the small business community.

SBA has embarked, first, on an effort called Re-inventing 504. I am really only going to be addressing the agency initiatives as they pertain to 504. Re-inventing 504 is looking at innovative ways to improve the delivery system of 504s to the small business community.

NADCO has set up an industry task force to assist SBA in defining and implementing new policies or procedures. The task force's first report has been submitted to SBA for its review and consideration.

SBA and NADCO have also worked together on a pilot program known as the Accredited Lender Program or ALP. ALP allows experienced CDC's with track records to have greater responsibility in processing, closing and servicing 504 loans and, thus, alleviate some of the workload on the growing program on the SBA loan officer. The program has been successful with the small number of CDCs and SBA offices where it has been implemented.

NADCO's Re-inventing 504 task force is not only looking at expanding the number of ALP CDC's nationally but further streamline the processing of the 504's in order to achieve efficiency and cost savings to the agency.

NADCO is committed to maintaining the quality of the 504 portfolio. We are currently working with SBA and Colson Services Corporation to produce a study on portfolio quality. This study is expected to be completed within several months and should provide additional independent information on the continuing quality of our portfolio.

In previous testimony we requested that the Federal Government address the issue of the onerous 503 prepayment penalty. We recognize that the Chairman has made previous attempts to rectify this situation only to have the proposals rejected.

Congress and the administration are again seeking a solution to the 503 prepayment penalty problem, and NADCO applauds these efforts. However, there is one facet of the legislation which we are strongly opposed to. That is the proposal that eliminates the statutory prohibition against Treasury and the Federal Financing Bank providing financing through the purchase of 504 debentures.

First, when the 503—and I am going to go through three reasons why we believe this would be detrimental to the 504 Program.

When 503 was first created, it was the Federal Financing Bank, or FFB, which is a facility within the Treasury, which demanded that there be an interest rate market-driven prepayment penalty. This is consistent with FFB's mission, which is to minimize funding costs and to maximize interest rate. But this mission is directly at odds with the mission of the SBA Programs, which are to promote economic development through service to the small business community.

The 503 prepayment debacle is a direct result of FFB's inflexibility in the implementation of its mission, and NADCO does not believe that the policies and mission of FFB have changed.

Second, through your foresight, Mr. Chairman, the 504 program has developed into a cost-effective financing vehicle which is a small business's window to Wall Street.

The last page of my testimony shows a chart comparing the rate spread over comparable 10 year treasuries between Ginnie Mae and 504. As you can see, the rate spread for 504 is narrower than that of Ginnie Mae for all but two periods, meaning 2 months over the period under analysis which is 6½ years. This has been achieved by the 504 market, even though Ginnie Mae's program volume eclipses that of 504.

The private sector financing mechanism is working, and FFB entry into these markets with public funds would seriously disrupt the flow of low-cost private capital and create chaos in the 504 securities market for years to come.

Finally, the return to FFB is akin to creating another direct lending program, since Congress would need to fully appropriate the lending authority rather than only to guarantee costs, which is under 1 percent currently.

504 has gained acceptance in the private markets. Its long-term fixed interest rates are attractive to our borrowers, and the program is inexpensive to administer.

We urge this committee to reject the administration's proposal to put the FFB back into the 504 funding business, thereby replacing private investment with public funds. We believe that it would lead to an inflexible bureaucratic and costly program that does not serve the small business community well.

NADCO does support the efforts to provide relief to those 503 borrowers facing onerous prepayment penalties. In structuring relief, NADCO focused on two basic precepts: One, that we want the $30 million authorized to reach as many affected small businesses as possible; and, two, that every 503 borrower would bear some burden of penalty since, when initially funded, they did accrue the benefits of available long-term financing and at the time a lower-than-market interest rate.

We propose that instead of using the 504 prepayment formula and timetable to determine this prepayment amount that Congress consider a flat percentage penalty for every borrower seeking to repay. The funds captured through this mechanism would be added to the pool of funds, that $30 million in order to capture more borrowers who desire to prepay.

We suggest a range of 5 to 10 percent. We seriously considered 7 percent since our research showed this to be the average balance of 503 borrowers' loan reserve account. This penalty would be easy to compute and would offer meaningful relief to the most affected 503 borrowers.

NADCO also supports the administration's proposal to allow 503 borrowers to refinance with 504. Without this provision, some of the most severely impacted companies would not be able to take advantage of the 503 prepayment relief.

Additionally, to offset some of the sacrifice that the 503 borrowers will be making through the prepayment, the CDC industry is prepared to assist those borrowers rolling into the 504 Program by reducing the 504 origination fee from 1½ percent to ½ a percent.

Mr. Chairman, this concludes my prepared remarks. Thank you again for your continued commitment to the 504 Program, and I have appreciated the opportunity to speak to you and the rest of the committee today.

I would be happy to answer any questions you or any members of the committee might have.

Chairman LaFalce. Thank you very much.

This is a vexing problem, how to deal with the prepayment penalty, but it is one that we will deal with and resolve this year. We thank you for your input into it.

[Ms. Vohryzek's statement may be found in the appendix.]

Chairman LaFalce. Our next witness on behalf of the Independent Bankers Association of America, Mr. John Shivers.

TESTIMONY OF JOHN SHIVERS, PRESIDENT, INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Mr. Shivers. Thank you, Mr. Chairman, Mrs. Meyers, members of the committee.

I am John Shivers, chairman of Southwest Bank of Fort Worth and president of the Independent Bankers Association of America.

We appreciate this opportunity to testify. We strongly support the proposals to increase SBA's guaranty authority and reauthorize the program for 3 more years.

As you know, the IBAA represents many active SBA lenders, including my own bank. SBA's lending programs help us serve small businesses, which are the economic engines of our communities. We appreciate the close contact that the new SBA Administrator, Erskine Bowles, maintains with the private sector and are pleased with his commitment to revitalize this agency.

The administration's proposal demonstrates a strong commitment that we find reassuring. This is a welcome contrast to proposals to abolish the agency made in earlier years. Enactment of a longer-term reauthorization will encourage additional lenders to become more actively involved in SBA loan programs.

A long-term commitment and increased guarantee amounts are particularly important against the backdrop of last year's budget shortfall which led to a cutoff of SBA lending. We hope that there are adequate funds this year to allow our banks to participate in a program to serve the new applicants that will come to us as the economy continues to improve and recover.

As a further safeguard, we recommend that Congress provide a contingency fund to avoid future lending cutoffs.

We also urge the administration to recognize that the SBA will need adequate staff to implement the proposed increases and the many initiatives that the SBA has announced. This may run counter to the administration's goal to reduce the total Federal work force. However, inadequate SBA staffing could slow down loan approvals and lead to higher loan losses. As a community banker I know that it is a false economy if relatively small payroll savings are overwhelmed by large loan losses.

When I testified before this committee in March regarding lending trends in the industry, I highlighted a new program that permits us to submit far less documentation to the SBA when we make a loan under $100,000. It has been a pilot program.

Mr. Chairman, I understand that this program implements a directive to decrease paperwork that you and this committee initiated several years ago. It allows us to make loans that would not have been made under the regular program. It should do much to increase lending to women and minority-owned businesses.

I am pleased to report to the committee that this program is working very well in my bank. In fact, 65 percent of these loans on this low-documentation pilot program have been to women and minorities in my bank. It is a very simple program, and it works very well.

Even though we submit less paperwork, the bank must be sure that the loan is sound. We still require the borrowers to submit the traditional documentation. We then review it and apply our underwriting judgment. Based on our experience, we believe that the loan level should be increased above $100,000, perhaps to the $200,000 range. This would make credit more accessible to small businesses without significantly increasing risk.

Another SBA initiative, the Greenline Program, is less promising. While we support the concept—it is intended to fund short-term working capital needs—the program is not workable, in our opinion, as currently designed. Most banks would have to add staff to meet its strict monitoring and documentation requirements.

It is now designed like a factoring operation with very rigid day-by-day controls over inventory and accounts receivable. To offset these costs, we estimate we would have to charge 7 to 8 percentage points additional over the normal line of credit costs just to cover the cost of this monitoring. The SBA should consult closely with the banks and lenders to redesign the Greenline Program so that it functions more like a regular commercial line of credit. Otherwise, this would be priced out of the marketplace.

We are concerned about the provisions in H.R. 4297 which would permit the agency to impose new or increased fees. While earlier changes directed by Congress stretched the SBA's budget over a larger number of loans, it also made it more difficult for lenders to reach out to somewhat more marginal borrowers. This was clearly a significant policy choice. Congress may want to permit the SBA to charge fees for publications and some services, but it should reserve to itself the critical decisions about the basic shape of the lending programs.

While many banks are active SBA lenders, they face stiff competition from nonbanks. Recent legislation such as FIRREA and FDICIA imposed heavy new requirements on banks that do not apply to nonbank SBA lenders. For example, FIRREA requires banks, but not other lenders, to obtain appraisals from certified or licensed appraisers. This directly increased costs to borrowers who often responded by seeking a loan from a nonbank lender because they have reduced costs.

The regulatory agencies are moving to reduce the burden of this regulation by increasing the de minimis exemption. They have certified that this increase raises no safety and soundness concerns. Despite this, we understand that some Members of Congress are planning to offer an amendment to reverse the agencies. IBAA strongly opposes such an effort, since it will be costly to borrowers and offer no additional protection to the financial system.

Those who borrow from banks must also pay indirectly the other costs of overregulation and excessive paperwork. The IBAA sponsored a study by the Grant-Thornton accounting firm that found that community banks spend over $1 billion a year complying with just 13 pre-FDICIA regulations.

Fortunately, Congress has taken some steps to reduce the regulatory burden. The conference on the Community Development Financial Institutions legislation will be considering many provisions designed to reduce the burden. We have urged the conferees to act quickly so that the economy can begin to enjoy the advantages that will flow from these provisions.

The IBAA appreciates the opportunity to testify on these important issues. We urge the committee to support the administration's proposed increases in SBA funding and its 3-year authorization plan. In doing so, it should also address the staffing and program design issues that this expansion and recent SBA initiatives have raised.

Thank you, Mr. Chairman. I will be glad to answer any questions you have.

Chairman LAFALCE. Thank you very much, Mr. Shivers. We will withhold our questions until we have heard from all the witnesses.

[Mr. Shivers' statement may be found in the appendix.]

Chairman LAFALCE. Our next witness will be Mr. Dennis Jones, representing the American Bankers Association.

TESTIMONY OF DENNIS J. JONES, PRESIDENT, HINSDALE BANK AND TRUST, FOR AMERICAN BANKERS ASSOCIATION

Mr. JONES. Thank you, Mr. Chairman, Mrs. Meyers, members of the committee.

My name is Dennis Jones. I am President of the Hinsdale Bank and Trust in Hinsdale, Illinois. I have been directly involved with small business finance and specifically with the Small Business Administration guaranteed lending program for approximately 15 years. Presently, I serve as a member of the American Bankers Association's Small Business Executive Committee.

I am here today to testify on behalf of the ABA and to voice strong banking industry support for the Small Business Administration's guaranteed lending programs.

In the interest of time I will summarize my statement, which has been previously submitted to the committee.

This morning, I will be focusing my comments on the ABA's guaranteed lending programs, including the new programs—new pilot-type programs designed to complement the already successful SBA section 7(a) Program. These are efforts to increase lending to a more diverse group of potential small business borrowers and need to be supported.

Mr. Chairman, let me begin by thanking you for your sustained support for the SBA and its vital guaranteed lending programs. You are to be commended for your continuing efforts in ensuring that there is adequate funding for the 7(a) guaranteed lending programs. Particularly in recent years, when funding has been scarce, supplemental appropriations became necessary and were eventually received.

As I understand it, there are adequate funds under the 7(a) Program to meet the current fiscal year demand, and I also understand that there is SBA authorization language to ensure that the program is fully funded for fiscal year 1995 and beyond. It is our hope that this authorization, as well as its necessary appropriations, will move through Congress in a timely fashion.

The ABA not only supports fully funded SBA programs but we also support the lending initiatives outlined in H.R. 4297. These programs, if enacted, will provide both the small business borrowers and their bankers with additional flexible lending tools to assist a wider variety of these capital-deprived small businesses who are not currently able to obtain either traditional bank credit or current 7(a) type guaranteed lending.

Mr. Chairman, the banking industry has been a major participant in various SBA Programs for years. Approximately 10,000 of the nearly 12,000 banks have been involved in SBA loan programs over the past 10 years. A primary reason for the widespread bank participation has been the workable nature of the public-private partnership provided by SBA guaranteed lending programs.

Because small businesses in general have limited access to capital markets and other alternative sources of credit, they are likely to be more dependent on banks and other guaranteed lenders to fund their operations. The SBA loan guarantee program is an extremely important tool which enables banks to assist many eligible startup companies and companies that have the opportunity to expand and who desperately need financing but are not able to qualify for traditional bank credit.

In fact, given the recent sustained periods of economic uncertainty in many regions of the country, it is not surprising that the level of bankers' interest in SBA guaranteed programs has grown appreciably. As more lenders have gained experience with the SBA, confidence is building in its workability. We have certainly seen the impact of the increased participation in recent years. All projections suggest that this trend will continue well into the future.

Unfortunately, even with the many small business success stories which have been made possible under the current section 7(a) structure, the program remains far from a panacea. For example, although last year's changes to the SBA's preferred lenders program were instituted for budgetary reasons and had the effect of increasing the level of 7(a) funding, a practical impact of those changes is affecting the delivery of guarantees to small business.

Specifically, program changes adopted last summer reduce the percentage of loans covered by guarantee under the preferred lenders program from 80 percent to 70 percent. While this program change was intended to reduce the SBA's portfolio average from an

81 percent guarantee to about a 75 percent guarantee, one of the results is that fewer loans are being submitted by preferred lenders under the PLP Program.

Many preferred lenders are finding themselves unable or unwilling to accept the credit risks and the capital requirements necessary at the lower guarantee level, particularly for the marginal small business borrower and owner, those most in need of the SBA guarantee. As a result, many seasoned SBA lenders are submitting a number of their loan applications directly to the SBA to be processed for the higher guarantee amount.

This process delays guaranteed loan approval. It forces unnecessary and costly administrative burdens on SBA field personnel. Consequently, the ABA recommends that consideration be given to increasing the guarantee percentage on loans made under the PLP, preferred lenders program, to the previously authorized 80 percent level. This increase would place the credit decision back with the banks where we believe it belongs.

Mr. Chairman, this brings me to the provisions of H.R. 4297 designed to augment the successful 7(a) Program. Even with the success, the 7(a) Program in its current form does not always provide enough flexibility to enable lenders to efficiently and effectively make small business loans to very small startup operations seeking limited amounts of working capital.

The ABA believes that the low-document program and the loan express programs outlined under the bill would help dramatically cut through the burdensome paperwork and enable lenders to make guaranteed loans more workable for those businesses that are looking for less than $100,000 in credit. Moreover, we support the notion of moving the SBA's current direct Microloan Program to a guaranteed type program.

Further, I would like to comment on Title IV of H.R. 4297, which establishes within the SBA a permanent Office of Women's Business Ownership. The banking community has long believed that an extremely important service governmental agencies like the SBA have to offer is that of advocacy and education. Creating offices within the SBA which focus on specialized sectors of the marketplace have an important role to play in assisting potential small business owners and borrowers in developing not only workable business plans but realistic marketing plans that will increase the likelihood of long-term success.

The Office of Women's Business Ownership is an excellent example in that it works with potential women business owners to develop business plans that can be taken directly to potential lenders for credit consideration. This is the type of public-private partnership that works the most efficiently. The ABA supports and commends SBA in its effort to broaden its outreach not only for women but for all sectors of the small business marketplace.

Mr. Chairman, let me summarize by stating that the ABA supports strongly the provisions of H.R. 4297 that will better assist bankers looking for additional ways to make loans to struggling small business borrowers.

Together with the successful 7(a) Program, the SBA has crafted programs that show great potential and is looking for ways to enhance those programs that are already working today. The ABA supports this effort.

In conclusion, the initiatives and program changes outlined in H.R. 4297 should help increase the availability of credit for a more broad and more diverse group of potential small business borrowers. These proposals should be supported.

In the end, the SBA guaranteed lending programs are important to banks because they permit the industry to assist this fragile yet important segment of our society while still satisfying bank regulators that the safety and soundness of the financial institutions is being protected. With the guaranteed programs, credit is provided to small businesses that could otherwise not secure credit.

As always, this committee's continued support for the SBA Program is certainly appreciated by the banking community. We look forward to continuing to work with this committee and the SBA in a combined effort to assist our Nation's small businesses.

On behalf of the ABA, I appreciate this opportunity to testify this morning and am pleased to answer questions.

Chairman LaFalce. Thank you very much, Mr. Jones.

[Mr. Jones' statement may be found in the appendix.]

Chairman LaFalce. Our next witness will be Mr. Anthony Wilkinson on behalf of the National Association of Government Guaranteed Lenders.

Mr. Wilkinson.

TESTIMONY OF ANTHONY R. WILKINSON, PRESIDENT, NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS, INC.

Mr. Wilkinson. Mr. Chairman and distinguished members of this committee, it is again a pleasure for me to appear before you to discuss the Small Business Administration's 7(a) guaranteed loan program.

Let me begin by saying that this is an exciting time to be involved with the SBA and its loan programs. Over the past several years, the SBA and the lending community have provided record amounts of capital to the small business community. The SBA has done an excellent job in bridging the capital gap, but there is still much to do.

For the first time in several years, I am here today not to complain about the shortcomings of a budget request but to applaud the administration for its recognition that small businesses are an important part of the overall effort to create and sustain a pattern of steady economic growth and job creation. Without the success of small business, this country will not have a sustained and widespread economic recovery.

Without capital, small businesses cannot start, grow and prosper and create jobs. I thank SBA Administrator Bowles and the administration for understanding that it is vitally important that the 7(a) and other SBA loan programs be fully funded so that the credit needs of small businesses in this country can be met. I hope that through the appropriation process Congress will show its support for these vital small business loan programs and fully fund the President's budget request for SBA business lending.

In regards to H.R. 4297, except for a few items, NAGGL supports the legislative package that has been proposed. The proposed 7(a) business loan program levels for fiscal years 1995 through 1997 should be sufficient to meet borrower demands.

NAGGL supports the SBA 7(a) loan program initiatives, such as the Greenline, the Low Doc, the Women's pre-Qualification Pilot Loan Program, Small Loan Express, expanding the Microloan Program, harmonizing the Export Revolving Line of Credit Program with Eximbank's Working Capital Guarantee Program, as well as making the International Trade Loan Program more flexible.

While we are covering SBA program initiatives, NAGGL also supports Senator Dianne Feinstein's efforts to create the Small Business Defense Conversion Guaranteed Loan Program. We agree with the Senator's assessment that the best way to minimize the economic disruption caused by base closures and defense downsizing is to create jobs in those communities by supporting the expansion of small businesses.

It is during difficult times that borrowers need capital the most but often find that lenders are constrained from making needed loans, thereby further restricting access to capital for small business. Best of all, the loan program would require no new bureaucracy to administer as it would operate as a part of the SBA's 7(a) loan program.

Many sectors of the small business market remain starved for capital, and these initiatives address many specific areas of need. The SBA is addressing these needs in an entrepreneurial fashion.

We have heard two of the members already comment on the Low-Doc Program. It is a program that appears to be working quite well. It is a program designed to reduce the paperwork on loan applications of $100,000 or less. The credit review then focuses on the applicant's character and willingness to repay debts as evidenced by credit history. In exchange for a 90 percent guaranty and a simpler loan application process, the lender must be willing to accept the responsibility for and pay the costs of any liquidations.

Through April in the pilot program in Texas, 975 loans had been approved for $52.9 million for an average loan of about $54,000. There is another 200 loans in backlog waiting for processing.

While NAGGL is supportive of all these initiatives, we must realize that SBA cannot be expected to continue to deliver more services without some realignment of resources. Many SBA field offices are already overwhelmed by their current responsibilities. SBA field offices must have the resources and delivery systems to meet their current and expanding needs.

To address the resource problem, the SBA is proposing organizational initiatives. First, SBA's reorganization plan will reduce the number of employees in the central and regional offices and allocate those positions to field offices. NAGGL supports the concept of moving staff to the field offices, as this will allow SBA to improve the delivery of service to small businesses and at same time put SBA in a better position to handle its expanding workload.

Second, NAGGL supports SBA's efforts to streamline its operations through the use of centralized business loan service centers and a centralized preferred lender loan processing center. These efforts should create economies of scale, while at the same time improving consistency and improving the service to small businesses.

Third, NAGGL recommends that the preferred lender program be reviewed. Since the legislative changes last August, PLP loans as a percentage of loan approvals has dropped dramatically. This means more loans are being physically processed by the SBA, placing a further drain on the existing limited SBA personnel. SBA's transactions costs increase because of the greater amount of handling required on each application. Most importantly, the small business borrowers suffer as loans backlog at the SBA, reducing response times to loan applications.

One reason that lenders are shying away from the preferred loan program is the amount of capital a lender is required to put in each transaction. Bank lenders simply cannot make long-term loans, the kind most needed by small businesses, when their funding source is short-term deposits. In other words, you do not borrow short to lend long. Lenders will opt for the highest guaranty percentage possible, not only as a hedge against credit risk but as a way to limit their term or maturity risk.

Our major concern in the legislative package are the proposed changes in sections 508 and 509 of the bill which would remove the prohibition of SBA imposing any new or increased loan guaranty fees or debenture guaranty fees or any new or increased user fee. NAGGL does not object to SBA charging a reasonable and customary fee for its services, but for those of us who remember a prior administration's attempt to dismantle the SBA from the inside out, we recommend that a limit be set on the maximum amount of any new or increased fee and that guaranty fees not be subject to this change.

Mr. Chairman, that concludes my remarks. On behalf of all the members of NAGGL, I thank you for this opportunity to again come before this committee, and I would be happy to answer questions.

Chairman LaFalce. Thank you very much.

[Mr. Wilkinson's statement may be found in the appendix.]

Chairman LaFalce. Last year, we had to make some tough decisions. We did. We increased some fees. We reduced some guarantees. We imposed a fee on loans sold into the secondary market by ⁴⁄₁₀ of 1 percent, and we reduced the guarantee on large real estate loans, those for more than $155,000 with over a 10-year term, to 75 percent instead of 85 percent. We reduced the guarantee on the preferred lenders program to 70 percent instead of 80 percent.

Now, we didn't want to do any of that, but we also wanted to increase the loan guarantee authority. In order to increase the loan guarantee authority, we had to do something, and we couldn't come up with additional dollars to provide the subsidy money. That is the approach we collectively made.

We did say, though, that we would revisit the issue, take a look at it and see how it is working in practice. You have touched upon it, but I could use more specifics.

For example, what percentage of loans are you now submitting under the regular program rather than under the preferred in order to obtain the higher guarantee? What specific anecdotal evidence can you offer that borrowers are being declined because of the lower guarantees, if any?

What has been the impact, if any, of the secondary market fees on loans that you guarantee? Are they being retained in house or is the secondary market proceeding apace? If they are being retained, how is that impacting the liquidity? Or is your liquidity so great that it really doesn't make that big of a difference?

Who would care to comment on this laundry list of questions?

Mr. Wilkinson.

Mr. WILKINSON. Let me take a crack on the PLP percentage. It is my understanding that, as a percentage of SBA's loan approvals, that number has dropped from around 16 percent of the approvals down to about 8, and there are several offices—SBA district offices in the country that are having substantial backlogs.

It is my opinion that the difference between the guarantee percentages would, in and of itself, not be a reason to deny the loan application. I am sure some lenders will disagree with that, but if the loan works at a 70 percent guarantee—or, excuse me, at an 80 percent guarantee, it should probably work at a 70 percent guarantee.

The problem is lenders just simply cannot load up on long-term loans in their portfolio, so we have asked lenders to increase the amount of capital they must dedicate to long-term loans, and that dramatically increases or dramatically impacts their liquidity ratios.

Chairman LAFALCE. Aren't their liquidity ratios so great that that shouldn't be a problem?

Mr. WILKINSON. Well, in some institutions that is correct. Other institutions, particularly your high-volume SBA lending banks, liquidity is a major issue.

Chairman LAFALCE. Don't most of them attempt to sell it off, the unguaranteed portion in the secondary market?

Mr. WILKINSON. The guaranteed portion, yes.

Chairman LAFALCE. Aren't they selling the unguaranteed portion? For example isn't the money store packaging——

Mr. WILKINSON. The commercial banks are not allowed to participate in that program. In my written testimony I touched on that as well.

Chairman LAFALCE. We don't allow them to?

Mr. WILKINSON. Commercial banks are not allowed to securitize the unguaranteed portion of their loans today. That is an initiative——

Chairman LAFALCE. What law is that?

Mr. WILKINSON. Well, there are two. First, SBA has a regulation that allows only nondepositories to participate in The Money Store type transaction. That is one side.

On the second side, we have banking regulators who use a more conservative regulatory accounting treatment for the loan sales. So, even if SBA allowed commercial banks to participate today, they would not get the same kind of accounting treatment that The Money Store does on their process.

Chairman LAFALCE. Well, I understand that there is a different type of accounting treatment for noninsured institutions as opposed to insured depository institutions, but I don't know if there is any prohibition. It is just that there are different requirements. Is there any legislative or regulatory prohibition against a bank selling off the unguaranteed portion?

Mr. POWERS. I don't think there is a prohibition. It gets to the interest income and when it is recognized going off the books, doesn't it, Tony?

Mr. WILKINSON. Well, part of the discussion is how the regulators treat the sale of the loan. If a lender is——

Chairman LAFALCE. Of the unguaranteed portion?

Mr. WILKINSON. Of the unguaranteed piece. If the lender is at risk for any portion of that loan and in the securitization process that The Money Store has gone through they have established a reserve to absorb the losses.

In the eyes of the regulators, a lender is at risk for the entire unguaranteed piece, so they cannot remove the loan from the books plus they must then lever up their financial statements by showing the money that they have received from the secondary market as an additional borrowing. So, for a bank to sell a loan they have to raise additional capital, and that is a backwards process.

Chairman LAFALCE. Does anybody else want to tackle any portion of the issues that I raised?

Mr. SHIVERS. Mr. Chairman, the lowering of the guarantees will have an effect on the real small loans to the startup businesses, the mom and pop type who are the highest risk, the very risky loans to start out with. I think that lowering the guarantee amount will hurt those type of borrowers.

Chairman LAFALCE. I am looking for anecdotal evidence as opposed to projection. I am looking for actual experience. Of course, I think that the simplified forms that are being used for loans under $100,000 now will, in my judgment, more than make up for the reduced guarantee that preferred lenders are experiencing.

Mr. SHIVERS. Our experience with that program has been excellent.

Chairman LAFALCE. I wonder if that could be more of a reason for resort to the regular 7(a) Program as opposed to the PLP program than the reduction in the guarantee. In other words, if the forms that you need for loans of $100,000 are so much less now, wouldn't it be natural that the banks would be much more likely to go through the regular process which will also give it a higher guarantee?

Mr. SHIVERS. It would cut the approval time about in half, Mr. Chairman, on that low documentation program.

Chairman LAFALCE. Of the 16 to 8 percent reduction, how much of that is attributable to the reduction in the guarantee and how much can be attributed to the use of the regular program to secure the paperwork reduction under the Low Doc pilot?

Mr. WILKINSON. Well, the small loan program is only a pilot, and it is only being done in the San Antonio district office. That is a very focused program.

The Low Doc Program has not been expanded nationwide, although SBA plans to do so soon.

Chairman LAFALCE. We still have the forms simplification program that we mandated by law in 1988 for loans under $50,000 which is being used across the country.

Any further comments?

Mr. JONES. Mr. Chairman, just a quick comment on the dropping of the guarantee on the PLP. There continues to be a school of thought in the banking industry—it is a school of thought that is on the wane—that once a deal gets done and an SBA 7(a) loan gets made that immediately thereafter, at the same time of the funding of the loan, some portion of the bank's reserve for bad debts, allowance for loan and lease losses gets allocated to the unguaranteed portion.

As I say, it is a school of thought that is on the wane. It is held by more of the 30- and 40-year veterans of the banking industry.

When you drop a guarantee piece from 20 percent unguaranteed to 30 percent unguaranteed, the natural reaction is my reserve for bad debts isn't as good as it used to be, and I think that is the reason why we are seeing the diverting of some deals that are good to do, worth doing, from the PLP to the regular loan program.

I agree with one of my other panelists up here who said that the mere fact that the guarantee went from 80 to 70 doesn't dictate whether a loan gets made or doesn't get made, but I think it is having an influence on how it is going to get made and that is why people are going the direct route instead of the preferred lender program route.

Mr. WILKINSON. I just wanted to add to that. You know lenders, particularly bank lenders, have only so much of their deposit base that they can put into long-term loans. Under the changes from last year they have now been asked to put more into each deal, which means they can either opt to not do PLP and go to the higher guarantee percentage route or do fewer loans. So, you are seeing lenders opt to move away from PLP back to the higher guarantee percentage so that they can take what limited capital they have available and leverage that into the most loan dollars they can.

But I also don't want to give the impression that we think the answer is raise PLP back up. That simply won't stand by itself because we know that guarantee authority is too precious and that there will be some more hard choices there.

If we decide that the way to combat this problem is by raising PLP, something else is going to have to be given up so that we don't give up very valuable loan guarantee authority.

SBA has already taken a look at this issue of taking it back up to 80 percent, and it would cost us almost a billion dollars in guarantee authority for next year, and that is something we just simply couldn't give up right now.

Chairman LAFALCE. Thank you.

Mrs. Meyers.

Mrs. MEYERS. Ms. Vohryzek, I am pleased that NADCO is working on streamlining SBA processing of 504 loans. One of my CDC's in Kansas has complained to me about the length of time it takes to process a 504 proposal. What is the average length of time for 504 processing by the SBA currently and how many CDC's and SBA field offices are currently participating in the accredited lender program pilot?

Ms. VOHRYZEK. In terms of average turnaround time, I am not aware of a national study where SBA can say that the average length of time is 3 or 4 weeks.

From my impressions from the association, I would say that we have a low turnaround, particularly, for instance, like in the San Diego field office—or rather district office—it can go down to as low as, say, 3 days for credit approval and maybe the fourth day for attorney review. So, as low as 4 day turnaround.

I have heard as high—for instance, right now, Fresno is experiencing a staffing problem, and so they are all the way up to 8 weeks. Now, that is an anomaly, but I would say that the range that I have heard is as low as 3 to 4 days and as high as 6 to 8 weeks.

The administrator is attempting to address some of these issues by this reprogramming or rechanneling of staff down to the district offices. In many cases, it is a matter of staffing. In some cases, it could be a matter of a particular staff person. That is hard to deal with.

We do talk to central office in cases where a CDC—for instance, like the one that you are speaking about, I know that central was aware of that CDC. It is one of a few that they are trying to work with the district office because it is a particular problem and not a systematic problem.

In terms of—we have in the pilot program approximately 30 CDC's. I would say that probably touches about 50 districts because some CDC's like mine will have accredited lender status in a couple of different districts whereas some will just be county wide and, therefore, only report to one district. So, I would say field office plus district probably somewhere around 50 SBA offices, and we have approximately 30 accredited lender CDC's.

Mrs. MEYERS. Thank you.

I have one question for the bankers, and then I will yield.

Mr. Shivers and Mr. Jones, while I appreciate your comments about the importance of the 7(a) Program, and it is very important, I also have some concern that dramatically increasing the program as proposed in the SBA's reauthorization package only further discourages banks from making any loans to small businesses without the Government guarantee. I would like you to comment on that and tell me what percentage of the small business loans made by your banks are under the 7(a) guarantee.

Mr. SHIVERS. Mrs. Meyers, the majority of loans made in my bank are not under the 7(a) guarantee program.

Mrs. MEYERS. The majority are not?

Mr. SHIVERS. Are not. We specialize in lending to small businesses, and a lot of them are locally owned. Most of them are—a lot of them are—mom and pop shops.

Now, we also have made loans directly that have been rejected by the SBA, so we have—my bank has always worked hard in this area, and the ones we have submitted to the SBA have been the ones where we felt like the risk of direct lending was too great. We keep all of them in our portfolio. We do not sell any in the secondary market.

Our loan demand is still extremely light in the State of Texas, and I am looking for all the good loans I can find.

Mrs. MEYERS. Thank you.

Mr. JONES. A very small minority of the loans that the banking organizations in the metropolitan Chicago area are making are via the 7(a) or SBA guaranteed programs.

Mrs. MEYERS. A small percentage like 25?

Mr. JONES. No. Well, less than 5 percent.

Mrs. MEYERS. Is that right?

Mr. JONES. The reason for that, though, in that particular region is intense competition, and it is, generally speaking, a better program for a small business borrower in terms of cost to proceed without the SBA guarantee than to proceed with an SBA guarantee.

I really think that your concern is a legitimate concern in areas where there may be less competition, where few banks control a larger segment of the small business marketplace and decide to proceed that way. But a very small percentage are done with guarantees.

Mr. WILKINSON. I might add that I thought I had with me the top volume list from SBA, but I did not. But my recollection is to be in the top 25 volume lenders, a lender makes somewhere between 50 and 70 loans per year, so for an institution, even those that are making that list, it would not be the majority of their loans.

I wanted to comment on the staffing issue. One thing we do need to keep in mind is that, because of the earthquake in California, a lot of SBA loan officers have been detailed out there, which is adding to the backlog problem. I think SBA has done a fantastic job out there, but that is one thing we do need to keep in mind.

Turnaround times all over the country are down. Some offices on the 7(a) side are looking to 3 to 4 months to getting an application processed. But we are sensitive to the fact that a lot of staff has been detailed to California.

Mrs. MEYERS. Thank you, Mr. Chairman. I will excuse myself because I have another hearing I was supposed to be at a half hour ago.

Chairman LAFALCE. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman.

I would like to ask Mr. Wilkinson a question and the rest of you if you want to respond.

We have seen the family in this country change a lot through the years. Now some women must work to add to their family income. Many of these women have obtained degrees, improved themselves, and are trying to start businesses. Women are starting businesses today at twice the rate of men.

If the current trend continues, women will own over 40 percent of all the businesses in this country. Yet SBA's financing goes to women only about 8 to 10 percent of the time. Women literally start businesses in this country by the use of a credit card. They have a tough time getting financing. Do you agree we have a problem here? If so, what should we do to correct it?

Mr. WILKINSON. I am glad you asked that question.

First of all, NAGGL, as well as the American Bankers Association and the Independent Bankers Association, has been participating in a review group at the National Economic Council in conjunction with the SBA, on the flow of capital to women- and minority-owned businesses. SBA has put out some information that does indicate 8 to 10 percent of the loans are flowing to women-owned businesses, but the SBA themselves will agree that they have some problems with their data.

As part of the review process, the banking groups in conjunction with SBA are going to take a look at what are the definitions that SBA uses. For instance, a husband and wife who through a partnership own and run a business where the wife is the dominant manager, that business is not considered a woman-owned business. So there are some definitional problems that need to be reviewed.

SBA also has a category whereby they can't tell race or gender on the application, and they put it into an undetermined class. That is 20 to 25 percent of their loan applications.

So there is a process that we are going to go through to take a look at the definitions that are being used and to refine the way the data is collected. My guess is that the SBA's actual results are much better than that 8 to 10 percent number that they put out, and NAGGL is happy to participate in the review process and see what we can do.

Even though the results are better than what we have here, I am sure we can still do a better job, and we are going to do our best to encourage our member institutions to look hard at the issue.

Mr. SARPALIUS. When do you anticipate us having available some sound numbers? If we have got a definition problem, what can we do to correct it? The numbers I gave are pretty impressive. If they are not accurate, I think it would be in our best interest on this committee to have a better understanding as to whether women have a true problem in obtaining financial assistance. Do we have a problem here or not?

Mr. WILKINSON. Well, I think, based on the data collection system today, it is tough to know that answer. I think in certain areas there probably are some problems.

The SBA ran a trial report on the top 25 volume lenders in the country and their performance in the women and minority lending areas, and most of them were quite impressive. On the average, between 25 and 40 percent of their portfolios were to women- and minority-owned businesses. Yet they are coming back with the number of only 8 percent on these calculations, so it is tough to know what is the right answer.

We surveyed some of our members in California and found the percentage of loans to women and minority owned businesses to be quite high.

In terms of timing, there have been three or four meetings at the National Economic Council. The reviews committees are now in the process of being formed. The administration is working on a 6-point initiative to address the issue.

I won't steal their thunder. I will let them announce it when they are ready. But my guess is the definitional problems hope to be concluded by the start of the next fiscal year. So, at the end of fiscal year 1995, we will have good, hard data that we can deal with.

Mr. SHIVERS. Bill, under the pilot, the low documentation program that has been under pilot status in Texas has worked extremely well. It is simplified. Many of the especially startup businesses, new starts by women and minorities, have been small dollar amounts. This program has worked wonderfully in our experience.

Our bank gives 65 percent of the loans we make under this program, this low documentation thing, to women and minorities and in relatively small amounts of money to get business startup money. I think this program holds lots of promise in the future based on our experience and a fast turnaround, too. Instead of the 8 weeks we get out of the Dallas office, in San Antonio we are getting 2 weeks turnaround on those.

Mr. JONES. Congressman, the statistics you recited indicate that it is a different world, just as it is a different world in the world of new business formation. The SBA programs that we are referring to that are currently in a pilot stage are very much needed.

The 7(a) Programs don't work all that well for service-oriented business startups where there is a dearth of collateral, where there is a dearth of hard assets. Many of the new business startups that I see—and this is anecdotal based on experience—that are women-started businesses are service oriented, and when they are service oriented the traditional 7(a) Program doesn't work quite as well.

The Low-Doc, the Loan Express where you are talking about character, credit history, experience and those sorts of things, I think will ask you the numbers in the right direction. There is a problem, and I think one of the solutions to the problem is that which has already been begun in some of these initiatives that have already been begun by the SBA.

Mr. SARPALIUS. Mr. Jones, you talked about how we now live in a different world, and it is a different world. As the world has changed, there are many opportunities for small businesses to compete in global markets. Unfortunately, a lot of these small businesses coming back with contracts from other countries can't get financing. We are missing the boat somewhere.

What can we do to help small businesses who have been aggressive in obtaining opportunities in other markets around the world but they can't get the financing at home?

Mr. JONES. I can get at that a little bit.

Part of it is something that, at least in my case, the banking industry has to deal with. In many cases the lending organizations and the lenders who are affiliated with the community banks that very typically are doing business with smaller kinds of companies have some reticence because of lack of experience in dealing with international trade.

As the consolidation of the industry continues, the banking industry continues, there is going to be more and more availability of people who are experienced in international trade dealing with the small business exporter and importer. So, I think part of that, the natural progression or one of the benefits of the consolidation of the banking business, is going to be that lenders who didn't previously have experience with export-import kind of financing are going to have a colleague that wears the same lapel pin who will be able to help them with that, so I think some of that is going to get improved.

The initiatives that are underway that are part of what we are discussing here today relative to guarantees from standby letters of credit are to be applauded. When there are real opportunities for companies that are doing $2 and $3 million a year in sales to move their product into foreign markets and the combination of better experienced bankers who are not afraid of standby letters of credit, bills of lading, freight forwarders and all the buzz words of the international trade market combined with some of these kind of programs where the creditworthiness is on the edge, is marginal, I think will expand those markets. So, I am encouraged that that is going in the right direction.

The Small Business Committee can facilitate that with applying some of the already-in-place guarantee type programs to foreign receivables, to export finance, to standby letter of credit guarantees.

Mr. SHIVERS. Bill, I think Dennis touched it on the head, a lack of experience.

In my market in the Fort Worth-Dallas area, I have a number of customers who are in the export-import business, and a few years ago, when they first approached us, we didn't know anything about it. But we learned, learned in a hurry. Now we do it as a normal course of business every day. We have about a half-dozen companies that ship merchandise both ways as exports and as imports, and it is good business. If you know what you are doing it is relatively simple, and it works.

In fact, one company that we started has grown to such an extent that they have outgrown the credit that we and a consortium of other banks can provide them and are getting ready to go to a public stock issue. So, it works. It just takes a little work on the first time to get the information. That is as close as your telephone.

Mr. SARPALIUS. Well, is I am just looking for what we can do to help those small businesses that are trying to capture those opportunities.

Mr. SHIVERS. Probably some seminars on export-import documentation and paperwork would be required in that marketplace.

Mr. WILKINSON. We did a survey of our membership—it has been about 18 months ago—as to why they did not use SBA's export revolving line of credit program more than they did. The two dominant answers we got back were, number one, our borrowers don't ask for it; and, number two, we don't understand the international lending market so we don't get involved with it.

So I think we really have a systemic problem here where lenders really don't understand how to deal in international lending. Loking at some of the centralized processing efforts that SBA is going through, perhaps a centralized export finance unit might be appropriate.

Mr. SARPALIUS. Mr. Chairman, I will just share with you, because I held several hearings on this issue. We found one problem. The Federal Government has 19 different agencies that have 150 programs relating to small businesses and trade. Any small business wanting assistance is shuffled around from agency to agency. They don't know where to go to get help. This is a golden opportunity for small businesses. With the passage of NAFTA, we have seen some real opportunities for small businesses in Texas. With the GATT agreement that is being debated now and as we see other agreements around the world being discussed, we need to take advantage of those opportunities for small businesses.

Thank you.

Chairman LAFALCE. Thank you very much, Mr. Sarpalius.
Mr. Kim.
Mr. KIM. Thank you, Mr. Chairman.
I do have one question to you, any of you.
I had a discussion with several people, business people, who had this SBA guarantee loan. Actually, what happened, they acquired a building as part of a business expansion and through SBA guarantee loan, through this money store investment company, and some reason that all the other buildings they have must be part of this, must be given to money store investment company as part of second TD, not only the building they financed but also the other buildings, too.
By doing that, whenever they try to sell the other building, the profit or equity they have generated by this transaction must be used to pay off the building they financed with the SBA guarantee loan. Since it is written all the places they are having a difficult time to get a conventional loan. The bank doesn't want to touch it.
So I don't think this is a fair practice, why SBA put hands on all the other buildings they own. So, do you know this is a fact or perhaps what we can do to change the policy?
Mr. WILKINSON. Many times, you take a look at the small business loan application and you will find that in their particular business operation the amount of equity capital they have at work is not sufficient in and of itself so that lenders will look to other sources of equity capital to shore up the deal, for instance, a second trust deed. It is a fairly common practice that when those side collateral assets are sold that some or all of that equity money be placed back in the business as if it were there from the start. It is a fairly common practice, and I have really not heard too many issues involved with that.
Mr. JONES. If I understand Congressman Kim's concern, though, it is not the equity capital being required to be put back in the business. It is being required to pay down the new loan that was made by the new property.
Mr. KIM. That is also a concern, too.
Mr. JONES. It is hard to discuss without knowing the specifics of the transaction. For example, if 100, 105, or 110 percent of the purchase price of the new building was being advanced it would not be unusual to take additional collateral in the form of a secondary TD. That is something that needs to be part of the up front, the negotiation process, in terms of if I sell any of the secondary collateral will there be lease price B.
It sounds like in this particular case, unfortunately, that negotiation up front wasn't agreed to and was taken as collateral, and the lender then has the right at that point to require that it pay down the loan. It is tough.
It is not at all—I would say it is not uncommon, but that seems a tad onerous because if the funds go back into the company it is just as well placed there as if it is paying down the loan. It is hard to specifically address the issue without knowing how the loan got on the books to begin with.
Mr. KIM. Thank you.
Chairman LAFALCE. During my earlier questioning, we spent most of our time on the reduction in the guarantee for preferred

lender program. But what about the imposition of the fee, 4/10 of 1 percent, on the sale of the guaranteed portion into the secondary market? That has not had any adverse impact, has it?

Mr. SHIVERS. Not that I am aware of. Tony could probably answer that better because I don't sell into that market.

Mr. WILKINSON. It is probably a little too early to tell. We had a lot of loans that were sold before the effective date of the legislation.

If you take a look at just this year alone, the volume of loans flowing into the secondary market is down somewhat, but, again, you had a lot of loans that probably got sold in a rush, so we probably need a little more time to evaluate the impact of that fee.

But that is a fee that could be looked at in regards to review of the PLP program. Perhaps there is a way if, in fact, we determine that the backlog created by the decline in PLP usage is important, perhaps this 0.4 percent fee could be charged beyond those loans that are sold on to all loans.

That is just one example of the review process we could take a look at for the preferred lender program, but right now I think it is probably a little too early to call. My guess is that there are limited——

Chairman LAFALCE. We have had some problems with that approach.

Mr. WILKINSON. That is just an alternative that is out there.

Chairman LAFALCE. What about equalizing the regular guarantee and the guarantee under the preferred lender program by reducing the guarantee to 70 under the regular program?

Mr. WILKINSON. Well, it could be a combination of reducing CLP and increasing PLP to a certain level. It could be securitizing the unguaranteed piece. That is an option to take a look at, too, but, clearly, the driving force right now is making sure we have sufficient funding.

Mr. JONES. Chairman LaFalce, there was a bit of an outcry when the fee was imposed. I don't hear that at all. I really don't see that being determinative.

Chairman LAFALCE. I thought that would be the least onerous of all of them, to tell the truth. I was adamant on getting at the back end rather than on the front end.

Now what about the reduced guarantee on the large real estate loans, the longer maturity? Any problem with that?

Mr. SHIVERS. No.

Mr. JONES. No.

Chairman LAFALCE. I didn't think there would be, either.

Let's get into the subject of fees. You have expressed reservation about the administration's request to remove fee prohibitions to give the agency the discretion to impose them, particularly loan guarantee fees. It is understandable because I think sometimes SBA doesn't make those decisions but OMB makes those decisions.

Let's focus in on servicing fees. What is your bank's policies about charging for servicing actions? What is the general bank policy on fees for servicing action? What specific fees do your members charge for substitution of collateral?

Mr. SHIVERS. We normally charge whatever our cost is in handling costs, fairly nominal.

Chairman LaFalce. Is that a percentage?

Mr. Shivers. No, not on a percentage basis, Mr. Chairman. It depends on the paperwork and whether some filings would have to be made on substitutions. It would be just to recover the cost of it, maybe $25, maybe $50. It depends on how many filings have to be done at the courthouse.

Chairman LaFalce. Shouldn't the SBA be able to charge a servicing fee, also?

Mr. Shivers. Well, I wouldn't call a fee for substitution of collateral a servicing fee. That is just a one time, not a continuing situation.

Chairman LaFalce. What would you call a servicing fee?

Mr. Shivers. I would think that would be a fee such as in the mortgage lending pools where the originators or whoever does the servicing there gets about 3/8 of a point for servicing that loan. Now, that is what I consider a servicing fee.

Chairman LaFalce. Could we distinguish in what we permit between PLP not permitting the SBA to do something there but permit the SBA certain type of fees when they are making the determination on the guarantee? That would be a greater inducement to use the PLP Program, it would seem to me, and therefore reduce the subsidy and therefore permit more loan guarantee authority.

Mr. Wilkinson. I am not certain the incentives by the small fees will be sufficient to warrant using the PLP program.

Chairman LaFalce. Very good.

Barbara, if I may call you that, so that I do not have to spell your name, mispronounce it, I think the penalty right now on all outstanding 503 loans would be about $98 million.

Ms. Vohryzek. If all were prepaid. The number that I have heard thrown around is $160 million if all 503 loans were prepaid, but that also includes loans that would be prepaid that aren't at an onerous interest rate. That would be people prepaying because of where the Treasury rate is right now.

Chairman LaFalce. What is the outstanding amount on 503's right now?

Ms. Vohryzek. I am going to have to look it up. It is in the $500 million range.

Chairman LaFalce. I thought it was about $527 million.

Ms. Vohryzek. Yes.

Chairman LaFalce. I was under the impression that the FFB penalties would be $98 million. Now, I thought that was if all were prepaid as opposed to excessive amounts because I don't know how we would define excessive. You came up with 160.

Tom, do you have——

Mr. Powers. I think 160 is an older figure.

Ms. Vohryzek. Older interest rates. You are right. Because they have moved—you are right.

But that also includes people prepaying that may be at 9 or 10 percent, that may not be at onerous interest rates, that may hold onto their loan because it doesn't make sense for them to prepay.

Chairman LaFalce. Now, first of all, I was pleased where you offered to reduce the 1½ percent origination fee to only a third of that amount. That 1 percent, essentially, can go to SBA without any additional cost to the borrower and that will permit relief to stretch to cover more borrowers.

Ms. VOHRYZEK. We were actually offering relief to the borrower. We had talked about doing that where the borrower would pay the origination costs of 1½ then 1 percent would go back to the agency to stretch the dollars. This is actual relief to the borrower. So, instead of being at 2⅞ origination, which is all of the different fees, they would be a half percent below that, to originate back into 504. But, as you know, it is put into the debentures so they are not out of pocket, but it is a cost they incur in order to roll from 503 to 504. So, that would not stretch the relief.

Chairman LAFALCE. What if the SBA captured it?

Ms. VOHRYZEK. Well, that is also something we discussed, that the idea—excuse me, it was a 1 percent. So, that the 1 percent would go—the borrower would pay the 2⅞ and the 1 percent would go along with the half a percent reserve back to the agency.

Chairman LAFALCE. That would permit us the ability, it would seem to me, over time to stretch more relief to more borrowers.

Ms. VOHRYZEK. That was our thought, along with that 7 percent.

Chairman LAFALCE. I am not wedded to anything at all.

You also talked about a penalty. You are not talking about elimination of prepayment penalties. You are talking about mitigating it. You talked perhaps about a 5 to 10 percent rate, especially in the 7 percent range. Seven percent of a $527 million portfolio would yield $37 million as compared to an FFB penalty of $98 million. Thus your formula would leave a gap of $61 million, and, of course, we only have about $30 million in the administration's budget. Do you have any suggestions about a system to allocate relief?

Ms. VOHRYZEK. Well, one of the thoughts had been to take it from the top, basically hit the 15.7 or 16.2, the top end, and then bring it on down. Because the $98 million, based on present Treasury rates, is also including those people at 8, 9, and 10 percent.

So the question is how far can we dig into the pool of prepayment people who would want to prepay and have the opportunity to? How far down can we reach without having the delineation of everyone at 10 percent and 8 percent knowing where these people capture?

Our thought was that we could easily be able to come down to at least 11 and possibly below 11 percent.

Chairman LAFALCE. That would permit prepayment by all those individuals with interest rates above 11 percent?

Ms. VOHRYZEK. The 7 percent is what is left, is the average percentage in their escrow accounts.

When these 503's were originated, 2 percent was set aside. It is the borrower's——

Chairman LAFALCE. If somebody is at 10.5 percent and they are not eligible and somebody else is at 11.5 percent and they are eligible, should they be eligible for 7 percent?

Ms. VOHRYZEK. No. No. What would happen—oh, I see what you are saying. You are saying you believe there should maybe be a tiered prepayment?

Chairman LAFALCE. How can you say if you owe 11.5 percent we are going to permit you to pay 7 percent, but if you owe 10.5 percent, you will have to pay 10.5 percent until the loan is repaid. You want to remove the disadvantage, but you don't want to make the most disadvantaged advantaged over the others by providing them some relief but denying any relief to lower interst rates.

Ms. VOHRYZEK. Maybe I am misunderstanding. Seven percent would be the prepayment penalty on all borrowers who chose to prepay. So, whether they are at 15 percent stated interest rate, effective interest rate, or at 10 percent, if they chose to prepay the outstanding balance of their loan, what we are assuming is that those people at the 9 or 10 percent level it would not make economic sense for them to prepay, that it would make economic sense at the higher interest rate levels, and that the 7 percent was a figure derived from the average balance in the escrow accounts across all 503 borrowers.

So that we were hoping that most of these borrowers would have—all of them will have escrow funds. Some of it may only be 4 percent. Some will be 10 or 12 percent. So, that those people, when they prepay their 503, the escrow is released so they will have funds to counter the prepayment on the 503.

Chairman LAFALCE. I want to thank all the members of the panel. We have raised some very interesting issues, and the committee will be grappling with them as we reauthorize the SBA programs this year. Thank you very much.

[Whereupon, at 11:06 a.m., the committee was adjourned, subject to the call of the chair.]

REAUTHORIZATION OF SMALL BUSINESS ADMINISTRATION PROGRAMS

TUESDAY, MAY 17, 1994

House of Representatives,
Committee on Small Business,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LaFalce. The committee will come to order.

Today the committee resumes its current series of hearings on proposals to reauthorize programs administered by the Small Business Administration, and to modify some of their terms and conditions.

This morning, we will be covering two topics: Venture capital and surety bond guarantees. Thus, we will have two separate panels.

One of the panels will present testimony on the Small Business Investment Company, or SBIC Program, and the Specialized Small Business Investment Company, or SSBIC Program.

The SBIC Program has entered a new era. Legislation we authored which was signed into law 2 years ago is now being implemented: The new participating securities funding provisions. Regulations finally have been issued and SBA has license applications pending from 48 new SBIC's. Over the next 3 years, SBA expects the new program to provide funding of over $3.3 billion, plus another $770 million on debenture guarantees.

On the SSBIC side, the agency is finally moving forward with another congressional initiative: The buy-back of preferred stock. When originally issued, the preferred stock from SSBIC's constituted an indefinite investment by the SBA. Stock issued in the past 5 years, however, has a mandatory 15-year buy-back provision, but older stock is still outstanding. We are attempting to phase it out by selling it back to the issuers, and I am looking forward to hearing of SBA's progress from the industry's perspective.

The other panel will deal with the surety bond guarantee program and the current pilot program establishing a preferred surety bond guarantees program.

SBA is convinced that the preferred program is such a success that it has proposed the elimination of the regular program and exclusive reliance on the preferred program which is less costly and has a lower administrative burden.

This is certainly an interesting proposal, but the committee is concerned that elimination of the regular program may result in some contractors being unable to get bonding under the preferred program. Since many contracts require bonds, closing the SBA bond window to small businesses would essentially put them out of the running for such contracts. To such firms, the results could be devastating.

Before we begin with one of the panels, do any other Members have any statements they wish to make at this point? Mrs. Meyers?

[Chairman LaFalce's statement may be found in the appendix.]

Mrs. MEYERS. Mr. Chairman, I am not going to make a lengthy opening statement, as I am sure we are all anxious to hear from our witnesses. However, I would like to comment briefly on my concerns about our venture capital programs so that the witnesses can perhaps address these issues during their remarks.

As we know from the SBA's own admission and from the recent GAO report, there are significant problems with the SBIC and SSBIC Programs in terms of projected losses and eligibility criteria. I am not comfortable with the dramatic increases proposed by the SBA for these programs. Even though there are new regulations in place and a new associate administrator, Robert Stillman with vast investment experience, I do not feel that we should push ahead with increased authorization levels until the program is cleared up.

Once the insolvent entities have been closed out, the losses accounted for, and any bad actors expunged from the SBIC, SSBIC Programs, then we can talk about increases. Until that time, I feel it is this committee's responsibility to protect the taxpayer money that has been invested in this program and not throw more good money after bad.

As representatives of the SBIC and SSBIC are with us today, I hope they will address my concerns and tell the committee what these associations are doing to police their own membership and ensure the quality of these programs.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much, Mrs. Meyers.

Any other Members have opening statements?

Mr. KNOLLENBERG. Just very briefly, Mr. Chairman, if I might, I just wanted to thank you for continuing to hold these hearings. I think this is about the fourth in this regard that we have had, maybe it is the fifth, if you are counting. But I wanted to thank the panel for coming today and providing some insight into some of the specific programs within the SBA. I think through these hearings on the SBA's budget, the Chairman has provided all of us on this committee an opportunity to look deeper into the SBA, and perhaps find some ways to shape the administration in order to more effectively grow our Nation's business. I look forward to the testimony from the panel and thanks to all of you for being here.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you.

If there are no further opening statements, we will begin. I know Mr. Sommer is here. Is Ms. Price here yet? Do we have all of the surety bond guarantee panelists here, Ms. Komlodi, Mr. Huss, Mr. Jankowski, and Mr. Sauer?

Mr. Sommer, I wonder if you would mind if we took panel two first, so that we can await Ms. Price's arrival. If that panel on surety bond guarantees could come forward, please, we will hear from you first. We will put your testimony into the record as if it were read. You may feel free to summarize it. I am hoping that you could all give your statement in approximately 5 minutes. If we have to go a little bit more, that is OK, but hopefully not too much more.

Ms. Komlodi, we will start with you.

TESTIMONY OF MARCI KOMLODI, BOND MANAGER, TIG PREMIER INSURANCE CO.

Ms. KOMLODI. My name is Marci Komlodi. I am an assistant vice president and bond manager of TIG Premier Insurance Co.

Good morning, and thank you for providing us this opportunity to speak before you regarding the Small Business Administration surety bond guarantee program.

TIG Premier Insurance Co., formerly Transamerica Premier Insurance Co., is one of the largest surety companies participating in the prior approval program. We are very concerned over your consideration of eliminating the funding for that program and we strongly urge you to fund the program at the appropriate levels for its success.

We have worked with the prior approval program since 1984, and in that 10-year period have been solely responsible for writing $55 million of gross premium on SBA guaranteed bonds. This represents contracts totaling more than $2.7 billion. I think you can agree that our contribution to the Nation's economy through the program has been significant. In calendar years 1992 and 1993, TIG issued over 6,000 final bonds through the SBA, representing over $720 million in contracts.

It is important to understand that this prior approval program appeals to a special surety market, which is different than the standard surety markets which access the program through Plan B. TIG is a specialty surety serving an entirely different market. We focus on a market that consists of small, emerging, minority and startup companies who are unable to secure bonding through regular channels or don't fit the niche carved out by the standard markets.

Companies such as TIG write bonds for contractors in situations traditionally not fulfilled by the standard surety companies.

Like other special surety companies, we operate differently from the standard surety companies. Our distribution system is different. We work with a pool of general agents and their subagents located throughout the United States. Additionally, we grant underwriting authority to those general agents who have intimate knowledge of the business and economic climate of the area. This decentralized approach enables underwriting agents to personally assist contractors in their development. Furthermore, it is this approach that enables us to provide bonds to qualified contractors who in other circumstances would be denied bonding. It is through the prior approval program that we are able to work so successfully in this way.

The proposal to move all SBG activities through Plan B would have a devastating negative effect on my company, our general agents and our contractors.

The current statutory guidelines prevent TIG from participating in the program through Plan B. In order to write the same volume of bonds per year in Plan B as we currently write in the prior approval program, we would be required to restructure our entire operations which would be ultimately cost prohibitive. With only a 70 percent guarantee under Plan B, there are many bonds that TIG would not write, bonds that are currently written under the prior approval program. We have long been a strong supporter of the SBA SBG program and eliminating the prior approval program would effectively eradicate our ability to write bonds for the very group of contractors for whom the program was designed.

TIG's general agents would also suffer serious effects without the prior approval program. They would lose underwriting authority and could therefore not effectively service the accounts resulting in the loss of clients. Further, the loss of the prior approval program could mean losing a book of business, and if clients aren't available and are going elsewhere, it is only a matter of time before those agents themselves lose business and eventually become unemployed.

Most importantly, the loss of the prior approval program would result in our inability to bond contractors, ultimately harming this group of small, minority and emerging businesses. The prior approval program provides the level playing field in the surety market, insuring competitiveness and fairness. This results in the best possible prices for jobs for the taxpayer. Without the prior approval program, contractors currently bonded through the program would have no access to the market.

It is likely that the Plan B sureties are either unwilling or unable to write bonds for a large number of the contractors served through the prior approval program. It is clear that the social benefits of maintaining the prior approval program far outweighing any nominal cost of continuing the program.

TIG has reviewed SBA testimony regarding statistics of the prior approval program as compared to Plan B. As a surety company involved in the industry, we note that the presentations provided are somewhat flawed.

Plan B is a pilot program which has been in existence for only 3 years. It does not carry sufficient credible experience to be able to compute loss ratios effectively. Most surety losses occur after 18 to 24 months. The initial writings in Plan B were low, consequently, true losses may not be known for several years after further production.

Additionally, the loss ratios presented must be viewed relative to production. Plan B accounted for 10 percent of the SBA bonds written and 5 percent of the losses. The prior approval program accounted for 90 percent of the SBA bonds written and 95 percent of the losses. Clearly, these ranges are to be expected given the respective levels of production.

TIG urges this committee to ensure that the funding necessary for the success of the prior approval program is available. We believe that the prior approval program and Plan B can successfully coexist as was intended. The design of the pilot program, Plan B, was not to replace the prior approval program, but rather to complement it. The prior approval program is designed to address the problems experienced by small, emerging, minority and startup businesses unable to secure bonds in the standard market.

As Plan B sureties do not actively pursue these specialty contractors, the prior approval program is the key to providing the majority of bonds to small, emerging, minority and startup companies. Precisely those businesses which are the backbone of our economy. Further, the prior approval program embodies the true spirit of the surety bond guarantee program: It provides access to those who otherwise would not be able to compete in a very aggressive market. It is the ability of the contractors to meet bonding requirement and therefore be competitive through the prior approval program that assures the taxpayer the greatest value for his dollar.

Thank you for your consideration.

Chairman LAFALCE. Thank you very much.

[Ms. Komlodi's statement may be found in the appendix.]

Chairman LAFALCE. Mr. Huss?

TESTIMONY OF JOHN A. HUSS, VICE PRESIDENT, UNITED STATES FIDELITY & GUARANTY CO.

Mr. HUSS. Thank you, Mr. Chairman. My name is John Huss. I am vice president with U.S. Fidelity & Guaranty Co. in the fidelity surety operation.

U.S. Fidelity & Guaranty Co. is currently, as of 1993, the fourth leading writer of surety business in the United States. We have been in the surety business since 1896.

USF&G has been involved with the U.S. Small Business Administration surety guarantee program since its inception as a prior approval program. We have been a participant in the preferred surety bond guarantee program since March of 1991, and we strongly believe that our activities in the PSB Program have been mutually beneficial to the contractors to which we provided bonding, the SBA and our company.

From the time we wrote our first bond in the PSB Program 2 years ago, through April of this year, we have issued a total of 525 final bonds guaranteeing projects for 255 contractor accounts. From our standpoint, our written premium from these bonds has grown from only $16,000 in 1991 for the whole year, and all of that was generated from the previous prior approval program, to over $400,000 in 1992, and in excess of $700,000 in 1993. We have set a target to write $1 million in this program for 1994.

A key measure of whether or not we are being successful in this program as far as we are concerned is the number of contractors that we have graduated and are able to bond without a guarantee. As of last February, we are now bonding without the guarantee 19 contractors that we initially bonded with SBA support. This may not seem like a large percentage considering the number of contractors that we are currently handling in the program, but you must remember that we didn't actually start writing bonds until early 1992 when our systems and the systems of the SBA were meshed. Considering that the contractors were acquired over the period of time of the past 2 years, and most of them really in the last year or so, I think the graduation numbers are significant and they demonstrate that the system is working.

We strongly feel that the existence of the preferred surety bond program has enabled us and other companies participating to provide bonding credit to small and emerging contracting businesses who have the know-how, desire, and potential to make it in the construction field and grow into viable contracting businesses. These firms would not have had the opportunity to acquire bonds in the standard surety marketplace without the presence of this program.

On the other hand, we have concern with the concept of eliminating the prior approval program. We believe that the small contractor marketplace contains firms with significantly varying levels of expertise, experience and potential for growth. Not all of these are qualified for bonding under the underwriting approach that we use in connection with the business that we place in the preferred surety bond program. Our underwriting criteria are geared to the selection of contractors whose inability to obtain bonding is primarily due to the undercapitalized position normal in a startup or emerging business. The other underwriting criteria applicable to small contractors are then employed to evaluate the ability of the contractor to complete the project in question, and his likelihood to develop profitability and growth.

We believe that other surety markets, some of whom participate in the SBA's prior approval program, have developed the expertise and service networks to provide bonding to the small contractor markets that might not meet the underwriting criteria of the so-called standard surety marketplace. Eliminating the prior approval program would, we believe, severely diminish the availability of bonding to this segment of the market.

The small contractor marketplace is best served in its variety of contractor types and abilities by continuing with both the prior approval and the preferred surety bond programs.

Thank you very much.

Chairman LaFalce. Thanks you very much, Mr. Huss.

[Mr. Huss' statement may be found in the appendix.]

Chairman LaFalce. Our next witness, Mr. Michael Jankowski of the Amwest Surety Insurance Company.

TESTIMONY OF MICHAEL JANKOWSKI, ASSISTANT VICE PRESIDENT/CLAIMS MANAGER, AMWEST SURETY INSURANCE CO.

Mr. Jankowski. Thank you, Mr. Chairman. I am here to testify before this committee on behalf of Amwest Surety. My position with the company is assistant vice president and manager of our claims department. I would like to thank each member of the committee for the opportunity to testify today.

Amwest is the Nation's largest underwriter of specialty surety bonds and we have been one of the largest participants in the SBA surety bond guarantee program for the past 15 years.

Our company was founded in 1970 and for the past 24 years our primary business has been providing surety bonds for small, emerging, and minority contractors. We have 31 branch offices located strategically across the United States, and we are licensed to do business in all 50 States, including Guam, Puerto Rico, and the District of Columbia.

Our commitment to meeting the bonding needs of small, emerging and minority contractors has been expanded over the past year to include our participation in two innovative public/private partnerships.

Recently, Amwest entered into a national agreement with the Department of Commerce to provide $30 million in surety bond credit to qualified minority contractors throughout the United States. Each of our branch offices will participate in the program, providing local assistance to minority business development centers, Native American business development centers, and MEGA centers located throughout the country. Be advised that joint Amwest/Department of Commerce meetings with a number of regional development centers that have already begun.

In addition, we have committed $50 million in surety bond credit for the Regional Alliance for Small Contractors in New York and New Jersey. By our involvement in these programs, Amwest will help to provide small contractors with greater opportunities to qualify for bonding for Federal and private jobs.

While not all bonds written through these programs will be SBA-guaranteed bonds, it significantly increases our comfort level to know that the prior approval program is available.

Although I wanted to provide you with a brief background on Amwest and our participation in the SBA Program, that is not my primary purpose for testimony today. The question before the committee is whether or not the SBA prior approval program should continue to be funded. To answer this question, it is necessary to review the purpose behind the prior approval and the preferred program.

The purpose of these programs continues to be to provide small, emerging and minority contractors with a vehicle by which they can obtain bonds required to bid on Federal and private construction projects. Contractors bonded through these programs do not have the required combination of experience and financial net worth to obtain bonds from standard market sureties. Furthermore, these contractors often are unable to pledge collateral necessary to obtain bonds from specialty surety markets.

By writing these bonds, the Government and the participating sureties are providing these contractors with an opportunity to expand their business, create jobs, provide a more competitive atmosphere in the construction industry, and add to the American economy.

As I indicated earlier, Amwest has been one of the largest participants in the SBA prior approval program for a number of years. However, our participation has declined over the past few years. The primary reason for this decline is that some of our underwriters have been reluctant to deal with what they consider to be a very cumbersome paperwork process. It is our belief that the paper flow within the SBA structure, both at the underwriting stages and claims reimbursement stage, could be improved if the SBA were provided with proper systems.

I understand that some work has already been accomplished on these systems and we would hope that this committee would allow for their completion and implementation. The SBA must be adequately equipped with systems to reduce and simplify its processing procedures under the prior approval programs. Furthermore, the SBA must also be supported in its field offices.

With these improvements, the SBA will be able to provide qualified sureties with much more incentive to enter the program, or expand their existing participation, which will result in the utilization of all available underwriting authority appropriated to the SBA each year.

In our opinion, the staffing cuts currently being considered would seriously impair the SBA's ability to achieve its primary goals of providing avenues for emerging and minority contractors to enter the marketplace and to generate more competitive bids on federally funded and private projects.

Let me elaborate on the most critical issue being considered by this committee. Keep in mind that the preferred program was established in 1990 to attract large standard market sureties to the SBA surety guarantee program. These so-called standard companies have long track records in the surety industry, tremendous financial reserves and resources and well-established, generally conservative, underwriting philosophies. In other words, these companies do not want, nor do they require, any special guidance or controls imposed by the SBA, such as those existing under the prior approval program.

Alternatively, most of the sureties currently involved in the prior approval program are small, dynamic, growing companies that have a desire to increase their book of business through the SBA surety guarantee program. These specialty companies also have a genuine interest in assisting small emerging and minority contractors in their efforts to break into and succeed in the field of public construction. These sureties, Amwest included, continue to benefit from the input and expertise of SBA staffers. Additionally, the SBA, as well as the construction and surety industries, benefits from the fact that under the prior approval program, the SBA can closely watch and monitor a surety's decisionmaking process and adherence to SBA underwriting and claims regulations.

As you can see, the prior approval program provides necessary informational resources to specialty sureties and an assurance of regulatory compliance in a manner absent from the preferred program. So, the real issue is not whether the prior approval program should continue to be funded; we believe the answer is yes. The real issue is ensuring that is SBA has the proper staff and tools required in today's business world to allow it to transact business in an economic and efficient manner.

On behalf of Amwest, I strongly urge Congress to provide for the continuance of the SBA Program at its current program and staffing levels, and to seriously review what additional staff and equipment is necessary in order to increase SBA productivity. Doing so will encourage a much greater participation in the program by Amwest, and other quality sureties.

Thank you once again for this opportunity and privilege to testify before this committee.

Chairman LaFalce. Thank you very much, Mr. Jankowski.

[Mr. Jankowski's statement may be found in the appendix.]

Chairman LaFalce. Our final witness on this first panel is Mr. Thomas Sauer, representing the American Surety Association.

TESTIMONY OF THOMAS J. SAUER, PRESIDENT, WESTERN STATES BOND AGENCY, INC.

Mr. SAUER. I thank you, Mr. Chairman, and members of the committee. I am here to represent the American Surety Association as well as my own agency, Western States Bond Agency, Inc., out of Denver, Colorado.

The American Surety Association is a professional trade association comprised of 100 businesses participating in the specialty surety industry. The organization began in 1980 as a way to improve information, both to and from companies that were involved in the SBA's prior approval program. Our membership represents most of the active participants in the prior approval program.

In 1986, the SBA ran out of funding for this prior approval program, back in August, and TASA encouraged its contractors to contact Members of Congress, and we were told that their response was impressive to you, and we do congratulate you for making sure that we have not had funding problems since that point. The proposal for the $2 billion per year we think is adequate to provide sufficient funding for this program.

We are concerned, though, about the elimination of the prior approval program. As has been stated before, this prior approval program has been established for over 20 years, and it has effectively met its mission in providing smaller and emerging businesses with the resources to qualify for surety bonds and compete for contracts. Many of these small and fledgling contractors are unable to obtain bonds without the SBA because their resources are too modest and their size represents too great a risk to regular surety companies.

Under this Plan B, this pilot program, the selected surety companies are authorized by the SBA to issue and monitor surety bonds without SBA's prior approval. However, in order to participate in this Plan B Program, the surety must meet certain regulatory requirements that the SBA imposes. It should be noted also that these same sureties that are Plan B players were initially involved in the prior approval program, but due to their reluctance to participate fully with the program, the specialty markets came in and the specialty sureties came in to fill the void and basically became the major players in the prior approval program.

As stated earlier, the program has been proven to be successful over a 20-year period, and to analyze the success of this program against the pilot Plan B Program, in effect, for only 4 years it is premature. It has been noted in previous testimony presented to this committee that the loss ratios for the prior approval program were more than twice that of Plan B.

There are two basic factors involved in that. Under the prior approval program, the SBA gives a higher guarantee, 80 to 90 percent depending, versus the 70 percent given to Plan B. So, that will inflate the loss ratio a bit. Also, most of the bonds underwritten through Plan B at this point are less than 18 months old, you really can't establish a loss ratio in that short a time period.

There is a report called the GAO-RCED94134 Report. It is a March 1994 report of the GAO where they state that SBA officials believe—this is in relationship to Plan B—that the officials believe that the lower loss ratio for the Plan B Program reflects the surety's reluctance, with the 70 percent guarantee, to underwrite higher risk bonds; that they concentrate on funds with growth potential. So, Plan B is not yet proven whether it can or will meet the mission of assisting all small and emerging businesses.

The prior approval program and Plan B appeal to different contractor markets in terms of their assistance. The elimination of the prior approval program would result in foreclosure of contract access to the prior approval program's market.

The prior approval program participants are companies designed to assist small and emerging contractors. Their target market is not limited to contractors showing significant growth potential. It is very often the case that the smaller contractor is satisfied with remaining small, as the company can build a strong company without necessarily growing larger in their environment.

Plan B, however, seeks to guarantee only those smaller companies with significant growth potential. The expectation from Plan B participants is that these contractors will eventually move into the standard surety market. Without the prior approval program, a large number of contractors would then no longer have access to the surety marketplace resulting from Plan B's marketing strategy.

Even if Plan B participants were willing to shift their emphasis to include the prior approval program's contractor market, we are not sure Plan B participants would be able to fulfill the complete 100 percent of the market seeking SBA guarantees.

Elimination of the prior approval program, it should be noted, may also result in less minorities having access to the surety bond guarantees available through SBA. Currently, the SBG prior approval program has approximately 24 percent minority contractor participation versus only 16 percent working with the Plan B. We are not certain that the 24 percent presently guaranteed through the prior approval program would necessarily fall into the Plan B Program. The prior approval program has successfully qualified small and emerging contractors for SBA.

Let me concentrate a little bit on my own agency and my personal experience with the SBA's Program. I have been involved with the program since 1977. My experience has been that we have underwritten numerous small town, rural contractors who have just single or sporadic bond needs.

Plan B sureties, as I stated before, aren't necessarily geared to handle the one-shot deals or those accounts with no growth potential. I am not sure they would ever contemplate doing that, just because of the economy of it. We are a market that caters to those people.

Also, we are in a pretty soft surety market right now where bonds are fairly accessible to any qualified contractors. But back in 1986 to 1990 when the market was very tight, we wrote many contractors who were denied further surety credit by the sureties now participating in the Plan B Program because of the distressed nature of their financial statement. Without the prior approval program, these companies would have no place to go. The prior approval program allowed these companies to gear themselves up and are maintaining themselves and are viable companies at this point.

Also, we deal with numerous companies that are startup, or businesses that are less than like 3 years old, and the Plan B players generally have companies that have to be in business for 3 years.

So, there is a prohibitive factor involved in the Plan B where new businesses wouldn't have a chance to obtain surety credit.

Also, the prior approval program allows contractors the opportunity, specialty contractors, those that can't get bonds through Plan B because of the unique nature of their work, they can't obtain bonds. Through the prior approval program, we are able to take these contractors and provide surety credit for them.

Also, the other area that could be taken out of the loop is the local insurance agents, the small insurance agents that are in every community who don't necessarily have an appointment with the Plan B companies. They would be shut out of the loop unless the prior approval program would be allowed to continue in existence.

I would like to thank you for the opportunity to speak.

Chairman LaFalce. Thank you very much, Mr. Sauer.

[Mr. Sauer's statement may be found in the appendix.]

Chairman LaFalce. I thank all the panelists. I am not going to ask any questions right now.

I really think that this is one recommendation that the administration has made which is way off base. I just think they are courting trouble, actually potential disaster, for marginal small business contractors, for minority contractors.

The ones that are going to benefit under Plan B are the ones that perhaps don't even need Plan B; the ones that need help the most are the ones that won't be getting it. They wouldn't be eligible for Plan B. It would be very unlikely to give them assistance.

I actually think this would lose the Government money from construction work these businesses might do and it just wouldn't get done.

Do any of you have any comments you would like to make based on my observations? You disagree in part, agree in part or in whole, whatever?

Mr. Huss. I will speak from the Plan B participation. I agree wholeheartedly with your philosophy on this issue. One of the requirements under Plan B is that the contractor is unable to get bonds under normal requirements without the guarantee. So, to the extent that the contractor is able to get a bond in the standard marketplace, where we do focus, has been indicated, on future potential and growth.

Chairman LaFalce. A 3-year track record.

Mr. Huss. We are looking for a track record. The ideal candidate for Plan B, I believe, would be someone who is perhaps a minority and who has worked for other people and risen to the level of project manager or superintendent, knows how to do work, knows how to get a job done, has gotten some help in the form of an accountant and has potential to grow, and has no capital. I mean, he has a pickup truck and some tools.

Chairman LaFalce. What percentage of Plan B have been minority contractors?

Mr. Huss. Roughly 19 percent, in our experience.

Chairman LaFalce. Nineteen percent?

Mr. Huss. Yes, sir.

Chairman LaFalce. What about prior approval? What percentage of prior approval?

Mr. SAUER. Minority participation?

Chairman LAFALCE. Yes.

Mr. SAUER. Roughly 24 percent, is every figure we have seen. I agree with your statements. I think that the SBA may be a bit premature in their analyzes to get rid of this program. Because it has—I mean, we have a 20-year history of success with it.

Mr. JANKOWSKI. I think there is an element of graduation on both sides. I mean, the prior approval program was started 20 years ago with the hope that these people would get bonds, grow their business, and then graduate into the standard market. I think that holds for some of the surety companies, too.

You do have a lot of—when Amwest started in the program, Amwest was writing about $2 million of surety premiums a year. We write about $60 million now. The benefit of having the SBA to review a lot of these submittals was critical to a company like Amwest at that time. There are a lot of companies that are in the prior approval program now that are like Amwest was 15 years ago. So, there is an element of graduating those companies up to Plan B.

Chairman LAFALCE. Do you find that the prior approval also brings with it a certain amount of management advice, assistance, during the prior approval process?

Mr. SAUER. Definitely.

Mr. JANKOWSKI. Yes. Also what you mentioned about getting these folks some help, that is the whole idea behind this partnership we have with the Department of Commerce. It is not only just to find people to provide surety bond credit, but we are working with the Department of Commerce and these regional offices to help work with these people to train them on how to better manage their money, how to better manage their projects, and how to manage their business like a big company so that they stay profitable.

I think anybody in the claims business on the surety side would agree that the biggest losses we incur, can be tracked back to somebody who either has poor management skills or has gotten into an area where they can't manage what they are taking on. Maybe they are taking on too much and they have limited management skills. I think this whole program we are involved in gets back to helping these people develop better management skills.

Chairman LAFALCE. Thank you very much.

Mrs. Meyers, do you or any of the other Members have any questions?

Mrs. MEYERS. As I understand it, the difference between Plan A and Plan B, then, is not just the level of the guarantee.

Ms. KOMLODI. Correct.

Mrs. MEYERS. In other words, there is a difference in the level of guarantee, but it is also the level of involvement of SBA?

Mr. SAUER. Involvement of the contractors. There would be so many contractors, in my opinion, that would slip through the cracks without the prior approval program, because the sureties that are involved in Plan B have economic considerations to take, factors to take into account. So, the small, the real small contractors, I think, would have a real significant problem getting credit through Plan B.

Mr. HUSS. I think another significant difference is the way the regulations are drawn. To be a Plan B surety, no more than 25 percent of your premium income can come from guaranteed contracts, and the underwriting—the evaluation of the business must be done with the same underwriters that handle the conventional or normal book of business for the surety. So, the intent is to apply more standard underwriting approaches and to look at the ability to do the work, the potential for graduation and growth, and to basically concentrate on the startups and the emerging contractors that don't have the capital to qualify for bonds.

Mrs. MEYERS. Thank you, Mr. Chairman.

Chairman LAFALCE. Mr. Knollenberg?

Mr. KNOLLENBERG. Very quickly. I know Ms. Komlodi—did I pronounce that right—you mentioned something about the social benefits outweigh the nominal costs. I guess I would like to know what these costs are. I know that is one of the questions I would like to raise, maybe for the rest of you, too. I know you go about your business constructing the idea of making some risks that you can accept. You make some assumptions sometimes with respect to either the prior approval plan or Plan B that you may not make with respect to your general book of business. But what are those? What are those costs that you spoke about?

Ms. KOMLODI. The nominal costs I am referring to is the cost to the SBA of operating the plan, operating the program in light of the numerous billions of dollars of contracts that have been—that the bonds have guaranteed. I think I had quoted $2.7 billion of contracts for just the bonds that TIG has written since inception; $2.7 billion over 10 years, and the program costs—the program costs in relation to that, in my opinion, are nominal for the benefit that the public is getting.

Mr. KNOLLENBERG. Are you talking about prior approval and Plan B, or are you talking about just prior approval?

Ms. KOMLODI. I don't have the statistics on the cost to operate Plan B, so I was referring to Plan A.

Mr. KNOLLENBERG. Let me ask the rest of you, then, with regard to Plan B, because this one is a little bit looser in its structure. Is there the potentiality that there must be a greater risk here for the taxpayer to be involved in this Plan B in a greater way than they would have been in the prior approval plan? Maybe that is not for you to answer, but I am going to ask you now if you can respond to that.

Mr. JANKOWSKI. Well, I think there certainly is, under Plan B, the sureties sort of operates on their own. They do—they don't get—there is no prior approval in effect.

Mr. KNOLLENBERG. All right.

Mr. JANKOWSKI. They are operating on their own, and I believe—and Mr. Huss I think can answer this better—but I think maybe every year the SBA comes in and does an audit to make sure that the Plan B surety is complying with the regulations in terms of their underwriting practices, their claims handling practices.

Under Plan A, every bond has to be approved and in effect, almost underwritten through the SBA, so there is a constant eye on the sureties to make sure they are following the regulations with regard to underwriting and with regard to claims handling.

So in Plan B, you might not—somebody may be writing this business for a year; you are not getting a look at them for that whole year. If, at the year-end audit, if there have been violations, well, you are stuck with those bonds. In all likelihood, any way, you are probably stuck with those bonds that you wrote that year, whether they complied with the regulations or not. That is maybe a little bit of speculation, but probably pretty good speculation on that.

Mr. KNOLLENBERG. All of these small businesses are undercapitalized, and I think you mentioned, for example, that you have an ongoing program, Mr. Jankowski, that relates to them, helps them get through some of the rough spots.

Mr. JANKOWSKI. Right. Well, there is certainly greater risk. I mean, that is why in the prior approval program, it is an 80 or 90 percent guarantee. To Amwest, which is familiar with writing bonds with collateral, that is like 80 or 90 percent of collateral every time we write one of those bonds. That is real evidence of the amount of risk that is involved in writing these contracts.

These new programs are geared toward trying to mitigate that risk by helping these people become better businessmen before they ever get a bond.

Mr. KNOLLENBERG. And you all want to continue both the prior approval program and Plan B?

Mr. JANKOWSKI. Right. With the sureties, you could be in one or the other.

Mr. KNOLLENBERG. Right.

That concludes my questioning. Thank you.

Chairman LAFALCE. I want to thank the panel for an excellent presentation. We will surely take your opinions into very careful consideration. Thank you very much.

Mr. JANKOWSKI. Thank you.

Chairman LAFALCE. And if we may have our next panel, Mr. Howard Sommer, chairman of the National Association of Small Business Investment Companies; Ms. JoAnn Price, president of the National Association of Investment Companies.

Mr. Sommer and Ms. Price, we will put the entirety of your testimony in the record, and I would ask each of you to summarize it, please.

You are both extremely knowledgeable, articulate individuals, and so if you could marshal your arguments behind your principal points, I would like to ensure that we conclude this hearing no later than 11 o'clock. In fact, I guarantee you we will conclude this hearing by 11 o'clock. I do have a number of questions that I want to ask and other Members may, too.

Mr. Sommer, we will start with you.

TESTIMONY OF HOWARD F. SOMMER, CHAIRMAN, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

Mr. SOMMER. Thank you. I very much appreciate this opportunity to testify before you.

I am testifying in my capacity as the volunteer Chairman of the National Association of Small Business Investment Companies, which is the national trade association for the SBIC industry. I should point out that in my real life, I am president of Fundex

Capital Corp., which is a privately owned SBIC located on Long Island in Great Neck, New York.

Fundex Capital, which was licensed in 1978, has had a profitable track record for the past 16 years. We have successfully financed some 230 small businesses, with over $35 million in funding, and we currently have in excess of $10 million under management.

I should point out to you that as a result of newly published SBIC regulations and the related management changes within SBA, we have expanded our commitment to our SBIC operation and we expect to double in size over the next 2 years.

I will abbreviate my comments in response to the Chairman's request, but I will comment briefly on the proposed new authorization levels for the program for fiscal years 1995, 1996, and 1997. I will not comment at all on the various proposed technical amendments contained in the bill. I will also briefly comment on H.R. 4298 dealing with the prepayment for SBA-guaranteed debentures issued by State and local development companies.

Finally, I do welcome the opportunity to respond to Mrs. Meyers' comments as to the timing of the expanded commitment to the SBIC Program and I will do so at the conclusion of my prepared remarks. In fact, I will be as brief as I can on the prepared remarks, because I would like to address Mrs. Meyers' comments in great detail.

Chairman LAFALCE. I was hoping you would do exactly that.

Mr. SOMMER. In fact, let me issue a summary statement, if I may.

Chairman LAFALCE. I think we have a golden opportunity now. Never before have we had an administrator, never before have we had an associate administrator for investment who was so knowledgeable about venture capital and the potential for maximizing this program. If ever we are to take something with a program and run with it, this is that moment, and I do not want to lose this golden opportunity.

Mr. SOMMER. I would support those comments in that we are at a point in time that is unusual in the history of this program. Let me just point out that——

Chairman LAFALCE. My counsel admonished me, he said with the obvious exception of Mr. McNeish when he was at SBA.

Mr. SOMMER. I won't comment on that.

Let me just point out that last year when we testified before this committee, we indicated that the new program would only be successful if it attracted top quality financial management into the program and meaningful levels of private capital investment.

We indicated that in order to achieve those objectives, we needed several prerequisites; one being new regulations that provided a positive regulatory environment, and in very brief summary, I am pleased to point out to you that with the publication of the final regulations just a few weeks ago or a month ago, we have achieved the first purpose which was to create a regulatory environment that would not only provide opportunities for SBIC licensees, but would enhance the flow of capital to the small business community.

I should also point out that last year we commented on the need for upgrading management within the SBA—within the Small Business Administration itself to make the program work, and I am pleased to report that from our perspective, SBA Administrator Erskine Bowles and the Associate Administrator for Investment, Robert Stillman, bring to the agency exactly the type of relevant experience and background that not only provides an understanding of what the licensee's requirements are, but provides an understanding of the marketplace and the needs of small business that heretofore was not within the administration.

As a result of that confidence and understanding of the business we are in, I am pleased to report that we have found that within the administration there has been an upgrading of attitude, commitment, and relationship with the industry so that both the administration and the industry are moving together in a very positive direction to maximize the value of the program to the small business community, although we are a little concerned that the process took as long as it did.

On the other hand, the outcome was well worth the wait, because we now have not only an upgraded management capability within the administration, but the problems that have been present in this program historically have now had an opportunity to be worked out and addressed in the new regulations. I will talk about that more when I address Mrs. Meyers' comments.

Very quickly, in terms of the requests, the appropriation requests for the participating security, the new security, new leverage security, as well as the classical debenture security, by and large, we support the authorization request before you. We, in fact, concur very closely with the estimates on the part of licensees using the new participating security. We do feel, over the next several years, through fiscal year 1997, there can be as much as 200 new SBIC's licensed for use of the new participating security.

We also feel that their average capital would be somewhere in the $15 million range, which means that over the next several years in excess of $3 billion of private capital can be brought into the program.

We feel that during this period, approximately 60 percent, or $1.8 billion, of that private capital will be deployed in investments in small business, and that during this period through 1997, approximately $3.5 billion of leverage will be applied for in the form of the participating security.

What this means in totality is that SBIC's using the participating security through their own private capital as well as leverage will inject in excess of $5 billion into the small business community. Interesting enough——

Chairman LaFalce. Over what timeframe?

Mr. Sommer. Through fiscal year 1997.

Interestingly enough, the resurgence of the program, the revised regulations, the availability of a participating security has not only created interest in that element of the program, but has regenerated interest in the debenture side of the program as well, and we are seeing enormous interest on the part of capable management who want to apply for licensees using the classical debenture form of leverage.

We have some disagreement in regard to SBA's estimate as to what that demand will be. In summary, we think the demand will be somewhat in excess for use of debenture leverage than SBA does, but we are not that far off.

Let me just summarize once again the statistics, because they are in my prepared remarks that you are entering into the record, let me just indicate that through the combined use of participating securities and the classical form of debenture leverage, we anticipate over the next 4 years to have a significant amount of private capital as well as leverage capital flow into the small business community at a time, I might add, where the need is greater than ever, notwithstanding the published statistics as to how money is flowing once again into the private venture fund industry.

I must point out to you, if you study the statistics closely, you will see that the private venture capital industry is more and more becoming concentrated in the hands of fewer and fewer managers. You are seeing larger and larger funds being capitalized and what this all means from an operating standpoint is that larger small businesses will have sufficient monies from these private venture funds but that the smaller small business community, which historically has been serviced by the SBIC Program, will be further removed from the money flowing into the private venture funds, which only supports the fact that the program, the SBIC Program is needed more than ever.

I will conclude my statistical remarks with those comments, and I do ask that you study them a little more closely in the prepared remarks.

Let me address very quickly comments regarding the prepayment penalties for State and local development companies as to how we feel that pertains to the SBIC industry.

Briefly, let me point out to you that the SBIC Program is also—licensees are also being penalized by the lack of ability to prepay high-rate debentures that were issued during the 1980's when interest rates were much higher. In fact, there is in the development program, it is the end user who has the penalty. Within the SBIC Program, it is the licensee who has the penalty, because the licensee has to accept prepayment from its investment small business, but in turn, the penalties for prepayment back to the Government are quite excessive, so excessive that it is not economical to do so. So, we ask that the SBIC Program be included in some relief possibilities that are included in that legislation.

Let me, if I may, use the rest of my time to address Mrs. Meyers' concerns as to whether this is an opportune time to consider expansion of the program and renewed commitment to the program.

I think, Mrs. Meyers, your concerns are valid, and well-founded in the sense that over the past several years there has been much publicity about failures in the program and the effect on Federal tax investment, or investment of tax revenues. But I should point out to you that the process of evaluating this program is not new. That process started as long as 3 years ago. Not only was the industry concerned with the publicity regarding failures, but, quite frankly, we were concerned because the program was shrinking. More and more SBIC's were leaving the program, not only involuntarily, but voluntarily.

Chairman LaFalce. The former administrator, Ms. Saiki, formed a commission to study the nature of the problem, the extent of the problem and what to do about it.

Mr. Sommer. That is correct, and those studies were conducted by the SBA, and the industry had its own additional studies.

If I may, I would like to briefly summarize the conclusions of those studies because I think it addresses directly the point that you raise.

First, on a negative side, it was concluded that in fact over the years licenses were often granted inappropriately, both in terms of the economics of the licensee's operations as well as the quality of management.

Second, the form of leverage, that is the form of using debenture leverage to fund early stage equity-oriented types of strategies, was from the beginning a formula for failure. Licensees who were formed for the purposes of investing in early stage type of companies or were formed with a strategy of equity investment were using monies that they borrowed in the form of leverage that were not compatible with that form of investment. As a result, sooner or later in many cases you were bound to have a conflict between source and use of funds which led to failure.

In addition, the oversight performed by the Small Business Administration was oftentimes inadequate, due to management deficiencies within the administration itself.

Unfortunately during the latter part of the 1980's, an adversarial relationship developed between SBA and between the industry, and as a result, you had two entities who were not necessarily moving in the same direction to address these problems.

I should point out to you also that regulations themselves were changed in the 1980's that hampered profit-making opportunities on the part of licensees, and as a result, the regulations themselves caused failure within the industry.

On top of that, the regulations were constructed in such a way that the leverage opportunities for licensees were unlimited and very often licensees themselves over leveraged themselves, so that when we entered a recessionary economic environment, you had too much leverage and the losses as a result ate away or eroded the capital of the licensee.

Most important, because of all of these factors, the program was not attracting the best quality management out there from the venture capital industry. In fact, not only were we not attracting the best quality management out there, but we were losing the best quality management from the program because of the reasons that I have just cited.

I should point out to you, Mrs. Meyers, as well as to the rest of the committee, that notwithstanding these problems, the universal conclusion of the various studies conducted, including the investment—the Investment Advisory Council, which was an independent council formed to study the industry, the universal conclusion was——

Chairman LaFalce. There were all sorts of individuals, the accounting firms, I forgot whether it was Pete Marwick or Price Waterhouse.

Mr. SOMMER. Accounting firms, end users, various people within Government related to this program, as well as from the private sector. The universal conclusion was that notwithstanding these problems, the program was enormously successful, both in fostering innovation within the American economy and generating growth and employment and tax revenues within the small business community.

In fact, the statistics produced by the Investment Advisory Council showed that tax revenues paid just by SBIC licensees alone, not including tax revenues paid by companies invested into by SBIC's, that tax revenues paid by SBIC's alone was more than sufficient to cover all of the past and future anticipated losses of the program. In other words, notwithstanding these problems, the SBIC Program had been a profit-generator for the Federal Government.

Now, notwithstanding that positive history, the revitalized program includes a number of changes which addresses these problems, and let me quickly go through them because they address your concern right on point.

Chairman LAFALCE. I think it is important to point out that there was a deep concern about the exact nature of the problem as articulated by Mrs. Meyers and that is why the committee and the Congress and the administration did everything they thought necessary to resolve them in 1992.

Mr. SOMMER. Very much so. In fact, it was this committee as well as its counterpart in the Senate that created the momentum to study the situation and revitalize the program.

Let me point out the following to you: First of all, under the new regulations and the new procedures, obtaining a license is no longer a right; it is now a privilege. Not only must the quality of management be demonstrated and experience a history of management be demonstrated as being capable, but the size of SBIC's obtaining licenses has been very much increased, whereas when I applied for a license back in 1978, $500,000 was sufficient capital to apply and receive a license. Under the new regulations, a minimum of $5 million for debenture users and $10 million in participating security users are required in order to obtain a license.

I should point out in addition that within the administration itself, the management capability has been very, very much enhanced. We now have senior management within the SBA who are experienced investment people, experienced venture people, and that type of background and orientation is filtering down throughout the administration, so that the oversight going forward on the part of the administration will be very much enhanced.

The amount of leverage that an SBIC can carry going forward has been very much limited, so that in times of difficult economic environments when SBIC's may in fact suffer some losses, the losses will not impact the capital base of the SBIC so that the sustaining power during recessionary periods will be there going forward.

The new form of SBA leverage and the structure of a participating security is very critical to future success. Those SBIC's who have early stage seed capital, equity oriented strategies will no longer have a leverage instrument that runs counter to that investment strategy, but, in fact, is compatible and supportive of that investment strategy.

Mrs. MEYERS. I didn't understand what you just said.

Mr. SOMMER. Fine. If I may, historically, for every dollar of capital within an SBIC, we were permitted to leverage that dollar with $2 or $3 of borrowings through the SBA guarantee process. The form of that leverage was in a debenture form, meaning a debt form. So, that for every dollar of leverage that we might have, we would have to pay interest on an ongoing basis, because it is in the form of debt. Yet in many cases, we were taking a debt form of leverage and reinvesting it in small businesses in the form of equity capital. Meaning that the small business would not be paying us interest on an ongoing basis. It would be in the form of equity. Typically, it takes 4 to 5 years for a small business to generate sufficient profit to pay a dividend on that equity.

Chairman LAFALCE. Which was the fundamental flaw in the conception of the program.

Mr. SOMMER. So as an SBIC, I was required to pay interest on my leverage, but I was not collecting sufficient income from my investment portfolio to cover that. That created—had to create a conflict, a contradiction that would lead to economic deterioration within my SBIC.

Now there are two forms of leverage available. The same as I have just mentioned, but that is compatible with SBIC's who have a debt-oriented investment strategy. That is, are providing more loan-oriented investments to small business who would be paying an interest return that allows us to pay the interest return to the Government.

But in addition to that, there is now available a participating security form of leverage which doesn't require the SBIC to pay a return until the portfolio companies are also providing a return. So, it matches the strategy of the portfolio to the small business with the form of leverage.

Mrs. MEYERS. Those were the changes we made in 1992 or 1993?

Mr. SOMMER. That is correct. The changes were made specifically to address the kinds of concerns that you mentioned.

Mrs. MEYERS. I recall when we made the changes and I recall what the changes were.

Chairman LAFALCE. There are some difficulties with the changes, Jan, that require a deeper subsidy.

Mr. SOMMER. Now, there are lots of other particulars that I could present to you, but let me summarize the essence of them. That is, that the program now makes sense.

Instead of losing qualified management to the private venture capital industry as evidenced by the number of applications that have already come in since the April 25th effective date of the new regulations, we are now attracting, if I can use the term, the best and the brightest of management within the venture capital industry who now want to be part of this program.

Not only are we getting the talent in the form of management, but we are getting enhanced capital investment in the new SBIC licensees, investment ranging anywhere from $5 million to as much as $45 million in private capital that is at-risk before SBA leverage is at-risk.

Mrs. MEYERS. You are saying they are better licensees because they bring more capital to the agreement?

Mr. SOMMER. They bring more capital and they bring more talent.

Mrs. MEYERS. Well, I appreciate your comments. You have said that some of the things that have really concerned me, you summarized yourself. The fact that licenses were granted inappropriately, that there were management deficiencies, that the licensees overleveraged themselves, that we were not attracting the best quality management. My concern has been along those lines, and as the Chairman knows, I think the SBA Programs are extremely important and very good for the country. But I take oversight responsibility very, very strongly, and I think having anything that even remotely approaches any kind of an S&L problem on my watch would be, I think, just devastating as far as I am concerned. I do take this very seriously.

Now, since these changes were just made in 1992, we have had a year, maybe a year and a half, to see that we do—that we are granting the licenses appropriately, that the management deficiencies are all cured, that we are attracting a better quality management to the SBIC Program. I am just not sure that that is enough experience yet to double the size of this program, and I have some concern about it and will probably continue to have some concern about it.

I appreciate your remarks very much.

Mr. SOMMER. Thank you. Your concerns are quite legitimate, and I might add they are compatible with the concerns that we as a trade association have for our industry.

I should point out to you that SBA or the Federal Government exposure does not occur until after private capital is invested by the licensee. So, there is an opportunity, there is a timeframe in which SBA can have additional oversight before Government liability is established, because the SBIC has to put out a certain amount of private capital and demonstrate its ability to conduct its affairs appropriately.

Chairman LAFALCE. That private capital would have to be wiped out before the SBA would suffer a loss.

Mr. SOMMER. Yes. Private capital is at-risk first.

In any case, I could go on all morning about this, Mrs. Meyers, but I appreciate your concern because it does provide an opportunity to address the real changes that have taken place. Thank you very much.

[Mr. Sommer's statement may be found in the appendix.]

Chairman LAFALCE. Thank you, Mr. Sommer. I am going to invite Mr. Sommer and Mr. McNeish to meet with Mrs. Meyers, because if she has any more questions, I want you to answer each and every one that she might have. Her support is essential.

I would also encourage a meeting between Mr. Stillman and the members of the Minority. I think that would be very, very helpful, too. I think you will really be impressed with his mastery of this area.

Mrs. MEYERS. Well, I like what I have heard about it, about him, and I am impressed with Erskine Bowles. So, I want to believe in this program; I just don't—I think we are moving ahead too quickly, but maybe—you have reassured me somewhat this morning.

Mr. SOMMER. Thank you.

Chairman LAFALCE. Actually, I have been disappointed. I think we have been moving too slowly. We passed a law in 1992, and it has taken until now to get the regulations promulgated and we still haven't started the program yet, and we passed it, I believe it was, I don't know, August of 1992. When was it, Mr. Sommer? August, 1992?

Mr. SOMMER. Yes.

Chairman LAFALCE. So it has taken almost 2 years to get off the ground.

Chairman LAFALCE. Ms. Price.

TESTIMONY OF JOANN H. PRICE, PRESIDENT, NATIONAL ASSOCIATION OF INVESTMENT COMPANIES

Ms. PRICE. Thank you, Mr. Chairman. I am sorry I was late for my debut this morning at 9:30. I apologize. I meant no disrespect.

Chairman LAFALCE. We save the best for last, Ms. Price.

Ms. PRICE. I was delighted to be on the panel with Mr. Sommer, and I listened to the advancement of the regular SBIC Program and I am wondering if we are in the same program. To point, and I am going to summarize and just submit my statement for the record, because I am not going to be speaking to it in any case. I want to bring up three or four very critical points.

I have been the president of this association, the hired hand of this association, for 15 years. When this administration was elected, we thought that we were at the end of having to come in and fight budget proposals, as we have done for the last 10 years. This Democratic administration, which enjoyed a 43 percent victory, received 20 percent of that vote from people of color. Yet I was shocked to find out that in this administration, the SBA administrator came to this committee in his discussion on the appropriations for the SBIC industry and the Specialized SBIC industry and responded to questions from Congressman Mfume that he was putting the resources of the agency where they can best be used. He was proposing to eliminate funding for the SSBIC industry's preferred stock. I think that that was probably the most shocking thing that I have been a part of as president of this association for the last 15 years.

The association represents the private venture funds, the State funds, and the SSBIC's. In the past there has not been a private venture capital side of the minority venture capital industry. All of the investing into minority businesses has been primarily through the SSBIC's.

I am happy to say that over the last 3 years, the private side of the industry has begun to develop, and it has begun to develop based on the public policy initiative of several administrations in the development of minority finance. So, that several of our SSBIC executives, and including a major fund that the industry helped establish, have been able to successfully raise capital in the private equity marketplace.

They are doing it because of a variety of issues. But the first and foremost is the return on equity, ROI profits, and the ability to go into a marketplace that they don't know a lot about and to be able to invest successfully.

I say this because when we are talking about public policy and we are talking about developing a segment of the marketplace, this SSBIC industry should be totally focused in that direction.

In addition, when we talk about what is happening at the SBA, I can say that we have one level supporting Congress; we have had new laws, we have had a tax initiative last year. In 1989, we were authorized to buy back our preferred, and I want to stress, that was November 1989. We are just now implementing that law at the SBA.

We have had no cooperation from the SBA over the last 3 to 4 years. It has been a fight at every stage of the game. Now most recently we have to deal with this paragon of virtue in Arkansas, David Hale, who has been in the SSBIC Program for close to 20 years. He is licensed; he has been audited. We have to send in 468's every year, and in addition to that, most likely, if you look at his portfolio, he probably has not done a minority deal in 20 years.

Now, the reason why I am bringing up that forthrightly, there is nothing that infuriates me more than a whole industry of executives who have to take the weight for a flake.

Now, at this point we have our most mature SSBIC executives. When Howard talks about wanting to bring in the best managers, we are getting ready to lose our best managers. They are successfully going out and raising private equity funds and looking to leave the SSBIC industry, our best at this point in time. That is a travesty.

We have $190 million of private capital in the SSBIC industry, and this administrator would come up here and request no money for the only thing that drives our side of the industry, which is preferred stock. We have a new preferred security and we come up with zero for preferred stock. That is where we are today.

So Mrs. Meyers, when you talk about leaving the funding levels where we are, well, to be honest with you, we are not even at the same point. The request for us has been less than where we are.

Chairman LaFalce. Let me just interrupt you, if I may, Ms. Price, to assure you that while I cannot speak for the whole committee at any point in time, it surely is my intention as Chairman to exert whatever influence I have to ensure continuation of the authority for and funding for the issuance of SSBIC preferred stock.

Further, it is in my intention to exert whatever influence I have to ensure that any prepayment of penalty provisions coming from this committee include not just certified development companies, but also SBIC's and SSBIC's, as they did in previous bills that I advanced that passed the Congress and were vetoed.

I can't guarantee anything except my best faith efforts, and I have a certain amount of confidence that they will be successful.

Ms. Price. To conclude, this committee has been supportive of this industry, our side of the industry consistently, and without constraint over the course of time.

I will say that the—at the SBA, on a very positive note, that we are very pleased with Mr. Stillman. He is the one glimmer of hope. He knows the business, and as a result of that, he has been able to apply what has heretofore been lacking, which is logic. So, that we are very hopeful that as he reaches out, and he has done so I think aggressively in reaching out to the industry, meeting, talking and doing a variety of things, that we will begin to see some changing. But of course, the political team has to ensure that our marketplace is a priority. I am hoping that we will see that in the future.

Thank you.

Chairman LaFalce. Thank you very much, Ms. Price.

[Ms. Price's statement may be found in the appendix.]

Chairman LaFalce. Because I want to move on, I am not going to ask very many questions. I will have some additional conversations with both of you or your organizations in the future. But I am very interested in pursuing the concept of how we can reduce the subsidy cost of the program of participating debentures, whether it is through somehow lower losses or more profit sharing for the SBA. But we have to work together on that.

The same thing is true with respect to the debenture guarantees. We have to explore that. We have to reduce that somehow. Any suggestions you have for me will be very helpful for the committee and for yourself.

Also, I am concerned about the two-tier system of recognition of appreciation of investments before the SBIC sells stock.

New debentures or participating securities companies can get credit for up to 80 percent of the current market price of publicly sold securities. Old companies, as I understand it, get zero. I would advise SBA—is there a representative from SBA here, yes—that the Chair considers that basically inherently unfair and there is no good reason why that 80 percent rule should not be applicable across-the-board effective yesterday.

I will turn the questions over now to Mrs. Meyers.

Mrs. Meyers. I don't have any questions at this time, but I will be meeting with some people on this.

I think it is interesting, though, Mr. Chairman, that you say you have such confidence in the leadership at SBA, and yet you are questioning the decisions that they have made in regard to this. So, you and I need to talk also.

Chairman LaFalce. Because in all candor, Mr. Bowles has not yet reached the level of infallibility. Although if he were the Director of OMB, he might. But sometimes he has to go along with the Director of OMB, and so sometimes we can help him be his best self. OK?

Ms. Margolies-Mezvinsky?

Ms. Margolies-Mezvinsky. I would like to enter a statement into the record, if that is OK with you, Mr. Chairman.

Chairman LaFalce. You can do anything you would like.

Ms. Margolies-Mezvinsky. Thank you.

[Ms. Margolies-Mezvinsky's statement may be found in the appendix.]

Ms. Margolies-Mezvinsky. Just a couple of quick questions.

In your testimony, Mr. Sommer, you indicated that there are two essential ingredients needed to be in place to achieve success for the SBIC Program. One is the establishment of a kind of new positive regulatory environment and the second one you mentioned is that there should be new regulations that are much more realistic, workable, and market-related.

You are out there in the small business community. How do you think we are doing with this in the SBA Programs and in Government regulations, in general?

Mr. SOMMER. Well, if you would have asked me 2 months ago prior to the publication of the new regulations, you would have a different response than you will at this moment. The regulations that were published and became final on April 25, actually published April 8 and became final April 25, are a marked departure from unrealistic, nonmarket-related regulations that the industry has suffered with for many, many years, which in fact help produce some of the concerns that were expressed by Mrs. Meyers earlier.

You could have capable management and sufficient capital, but if you are operating under a negative destructive type of regulatory environment, sooner or later you are going to have problems. The new regulations resulted from a 3-year effort between the industry, between Government, between other parties who are also relevant to the process, and I am pleased to say that although we can have minor disagreements, that in general and in totality, the new regulations we believe do reflect the realities of the marketplace; they do reflect the realities of operating within the marketplace.

I think the regulations in conjunction with increased capital levels and in conjunction with enhancement of management talent within the industry, you are going to see a very positive program going forward and, most importantly, a positive impact on the small business community. So, we are very positive about it.

Ms. MARGOLIES-MEZVINSKY. I am going to ask a question that could take several hours to answer. I just wanted to know your general reaction as a representative of small business with regard to health care and what the greatest fears are.

Mr. SOMMER. I think the greatest fear we have about the program going forward is to have excited the investment community about the program, to overcome their concerns and fears and have them become part of the program, and then have the Government not fulfill its partnership role in two respects.

One is to consistently provide the funding, the leveraged funding that drives the interest in the program. Second, our continued concern from past experience that the attitude and the spirit in which SBA manages the program does not continue in the positive direction that it has. JoAnn obviously has not yet been put—her part of the program has not yet been put on that positive track.

Our concern that we are on a positive track is that at some point in the future it could be a change in management or a change in administration that would in a very quick period of time very effectively destroy the goodwill that is developing out in the marketplace about the SBIC Program.

So consistency I think is the term that I would like to respond with. We need consistency in terms of funding and we need consistency in terms of SBA's management approach to the program.

Ms. MARGOLIES-MEZVINSKY. Ms. Price, how would you fit women into the equation with regard to your definition of what minority is?

Ms. PRICE. The SSBIC definition is socially or economically disadvantaged and heretofore majority women. White women have not as a class been eligible for financing from the SSBIC's. Of course, the SBIC's can finance white women with no problem. However, we do finance women on a case-by-case basis, nonminority women, and there are some in the portfolio.

Ms. MARGOLIES-MEZVINSKY. Thank you both very much.

Chairman LAFALCE. Mr. Portman?

Mr. PORTMAN. Thank you, Mr. Chairman. I will be brief.

Thank you both for being here. Mr. Sommer, I missed your testimony but I got to skim your remarks. Ms. Price, thank you for your testimony. It sounds as though the Chairman and Ranking Member will be having further discussions with the SBA and others regarding the preferred stock and regarding the commitment of the agency to the SSBIC Program.

I am new to the committee; in fact the newest Member, and mostly I come to learn. But do I have one question that is an elementary one that goes to your comment about David Hale. Incidentally, I agree with you that one bad apple shouldn't spoil the bunch and that David Hale's performance down in Arkansas shouldn't be used in a pejorative way to reflect on the whole community.

But you made the statement that he had in fact over 20 years been involved in the SSBIC Program and probably hadn't done a minority deal in 20 years. How can that happen? How does that happen?

Ms. PRICE. I don't know, Mr. Portman. You will have to ask the SBA about that. They do the audits, and they get the 468's, and we also have to submit what we call 1031s after each financing that provides an ethnic breakdown. So, that is a question that you will have to propose to the agency.

Mr. PORTMAN. Thank you. Thanks, Mr. Chairman.

Chairman LAFALCE. I want to thank the witnesses and the Members for their participation in the hearing, and the hearing is concluded. Thank you very much.

[Whereupon, at 11:05 a.m., the committee was adjourned, subject to the call of the chair.]

REAUTHORIZATION OF SMALL BUSINESS ADMINISTRATION PROGRAMS

WEDNESDAY, MAY 18, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The Small Business Committee will come to order.

Today we resume our hearings on the Small Business Administration, the Federal agency which is the primary mechanism to deliver assistance to the small business community.

All congressional committees are assigned the responsibility to conduct oversight and review the operations of the programs over which they have legislative jurisdiction. Although this committee conducts hearings specifically designated as oversight or investigative in nature, we also carry out oversight responsibility as part of the legislative or reauthorization process.

Instead of providing permanent authority for all of the programs operated by the SBA, we determined that it would provide for more accountability if the agency was required to periodically come before the committee to seek specific authority for the amount of assistance which should be provided through its major programs. The agency has done so, and we are now in the process of receiving testimony from those in the private sector who are participating or who have participated in these programs.

We have divided this morning's hearing into two segments. First we will receive testimony from three groups which provide management assistance, counseling and training to the small business community. Witnesses on this panel include representatives of the Small Business Development Centers, the Service Corps of Retired Executives, or SCORE, and the Small Business Institutes.

At the conclusion of that topic, we will turn to the disaster loan program, which provides financial assistance to victims of natural disasters, whether they be businesses of any size, homeowners, or charitable institutions. We will hear from a panel of borrowers whose property was damaged by the earthquake in Northridge, California in January.

The magnitude of this disaster is just now becoming apparent. Almost every statistic SBA keeps on its disaster loan activities has reached new record highs. In just 4 months, the agency has interviewed almost 500,000 people, received 175,000 loan applications, and has approved $1.6 billion in loan assistance to 56,000 of these applicants. Today we will hear on panel No. 2 from five of these.

I would like unanimous consent at this time to put Mrs. Meyers' opening statement in the record.

Without objection, so ordered.

[Mrs. Meyers' statement may be found in the appendix.]

Chairman LAFALCE. Do any other Members have statements they wish to make?

Ms. Velazquez.

Ms. VELAZQUEZ. Mr. Chairman, I would like to thank you for convening this most important hearing on reauthorization of Small Business Administration Programs, particularly the management assistance programs.

Small businesses are the backbone of our economy and create the lion's share of the new jobs each year. As policymakers we have the responsibility to stimulate small business development to enhance the economic condition of this Nation.

To accomplish this objective, the management assistance provided by the SBA must be efficiently the leader of the highest quality and must be accessible to all. SBA's management assistance programs seem to have worthy goals.

The Small Business Institutes are supposed to provide consulting, research and training to small business owners with the help of colleges and universities.

The Small Business Development Centers are supposed to offer intensive one-to-one counseling, business skills training, and an electronic data information network which small businesses can access through the use of the computer.

The Service Corps of Retired Executives are supposed to provide free counseling to prospective business owners and existing business owners with specific problems.

However, despite these worthy goals, I am not convinced that these programs are accomplishing the objectives of helping businesses become viable entities and serving all communities who desire small business assistance.

This is further evidenced by the fact that SBA Administrator Erskine Bowles himself has recommended that aspects of SBA management assistance programs be either cut or consolidated. Also, some of my own constituents have complained to my district office that they are unable to get assistance from SBA.

I hope that the representatives who are here to talk about these programs can address my concerns.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you.

Jan, we have put your statement in the record.

Will the witnesses in panel No. 1 please come to the table. We will hear in order from Mr. Lyle Anderson, the State director of the Washington State Small Business Development Center; Mr. Kenneth Yancey, executive director of the Service Corps of Retired Executives Association; and Dr. Joseph C. Latona, from the University of Akron in Akron, Ohio, who is the president of the Small Business Institute Directors' Associations.

We will begin with Mr. Anderson.

TESTIMONY OF LYLE ANDERSON, PRESIDENT, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Mr. ANDERSON. Thank you, Mr. Chairman.

Chairman LaFalce and members of the committee, good morning. My name is Lyle Anderson. Since 1985 I have been State director for the Washington State Small Business Development Center Network, a network that is made up of 20 counseling centers, 25 training centers, and is hosted by Washington State University at Pullman, Washington.

I would like to make remarks this morning basically in two areas, first of all, providing a brief overview of the status of the program, and then some comments on the administration's proposed budget.

The SBDC is a national network, made up of 56 programs with programs operating in each State plus Puerto Rico and the Virgin Islands. The program primarily has three impact criteria. The first one is that we be involved in job creation. The second is that we be involved in tax generation. The third one is that we look at our program in terms of a cost benefit.

We conducted our last national impact survey in 1993, a survey that was conducted by Jim Chrisman & Associates on our 1991 SBDC national client base. Forty-eight of our State programs participated in this 1991 survey. Clients reported in writing that they created 65,000 new jobs, and that they generated new taxes amounting to over $288 million.

Now, this represents a cost-benefit ratio of 2.6 to 1. That is, for every dollar invested in the program, for every Federal dollar invested in the program, there was at least $2.50 returned.

Truly, from our point of view, this does represent a strong economic development tool. A question that is of constant concern to us is whether the SBDC is able to meet the needs of its client base. Currently we would have to answer, no, we are not. The first reason for this is because we have an expanding need for small business assistance from entrepreneurs and owners.

In addition to the traditional startups and existing businesses we work with, we are faced with addressing requests from businesses and entrepreneurs affected by corporate downsizing, by defense conversion, and today, by small business expansion, where we see an increased need for capital for those businesses that are now in a position to expand and to grow.

The fact is that on a national basis, the SBDC centers and subcenters offering counseling and training services, we are only able to serve about 2 percent of the Nation's small business population. If you look at where growth comes from in terms of job creation and tax generation, it is about 5 to 6 percent of the small business community that is responsible for more than 80 percent of the tax generation and job growth.

So if we were providing the service level that we need, we would be targeting some 5 to 6 percent of our Nation's small businesses for these kinds of counseling and training services.

The fact is, as I said, we are not able to do that. At the same time that we are not able to serve the basic need that is out there, the administration has a proposal that includes reducing the SBDC appropriation by $4 million, and in addition to that, for the very first time in the history of the program, having the program charge fees for counseling services.

The fees that are being charged for counseling services, the administration says, would amount to $17 million. That money would be returned to the SBA to be used for the SBA's support for additional new program initiatives, nonSBDC program initiatives.

So at the very time when we are faced with an expanding market need, and for that matter an expanding potential for growth, the SBA, the administration is suggesting cutting the budget and charging fees.

Now, this is going to have some real impact on our program. If we look at the first area in terms of cutting the appropriation by $4 million, we are already at a point where we face resource compression issues. For one thing 48 of the 56 programs that are operating at the population funding cap, when we talk about that what we are talking about is the money that is available.

For example, in Washington State, we have been at our population funding cap since 1985, and you can imagine the kind of resource compression we have experienced with no increase in operating funds for what is close to a 10-year period now.

In addition to that, the national program has enjoyed no adjustment for inflation since 1990. This creates a further compression on the existing resource base.

This compression of resources on one hand tied to an expanding client need on the other hand is why we stand adamantly opposed to any decrease in the existing appropriation.

Fees for counseling is a very, very serious issue, as far as we are concerned, and one that seriously threatens the continuation of the program. First of all, we are dealing with cash poor but opportunity rich clients, and those cash poor clients, even if they have an opportunity for growth and job generation, and/or tax generation, are not going to spend money for assistance when they are faced with day-to-day operations and survival problems.

Also, this is going to put us in competition, at least perceived competition, and we think rightfully so, with the private sector, which historically has been a strong defender of this program. Today, we can anticipate, we can expect our private sector friends, including business consultants, professional accountants, attorneys, bankers, and the like, to volunteer services to this program. But we can also guarantee they are not going to volunteer services if we turn and charge fees for the services they volunteer, nor will they see us as a friendly ally in working with the small business community if we begin to compete directly with them for the services of their client base.

The third aspect deals with our stakeholders who are nonfederal in nature. For every Federal dollar in this program, there is at least $1 provided by other sources, including our State partners, our university and college partners, and our private sector partners. Certainly they are not going to stand on the sideline as the Federal partner in this program withdraws funds through fees while they continue to contribute to the operation of this program.

Instead of the administration's recommendation or the administration's budget proposal, we would recommend first of all that the appropriation be reinstated to the current level; that fees be dropped; and that there be an increase in funding in the base funding for the 56 programs from the current level of $100,000 to $200,000. This increase would amount really to an inflation adjustment based on inflation increases since 1990, and would add about $5.6 million to the appropriation base.

I thank you very much and I would be happy to entertain any questions.

[Mr. Anderson's statement may be found in the appendix.]

Chairman LaFalce. I thank you very much, Mr. Anderson.

It is a difficult dilemma that will be confronting the Small Business Committee as we ponder how to improve the program while being called upon to make severe cuts in the SBA budget.

Our next witness will be Mr. Kenneth Yancey, Executive Director of the Service Corps of Retired Executives.

TESTIMONY OF W. KENNETH YANCEY, JR., EXECUTIVE DIRECTOR, SERVICE CORPS OF RETIRED EXECUTIVES ASSOCIATION

Mr. Yancey. Thank you, Mr. Chairman. My name is Ken Yancey. I am executive director of the Service Corps of Retired Executives Association.

Mr. Chairman, I would like to ask that my full testimony be entered into the record, and I will speak informally from my notes.

Chairman LaFalce. Without objection, so ordered.

Mr. Yancey. Thank you. I am grateful for the opportunity to appear before the committee.

As you know, SCORE is a nonprofit association of retired men and women who volunteer their time and expertise to help new and existing small businesses. SCORE volunteers provide many services to the people who seek our help. We counsel those people who are interested in going into business. We counsel existing business owners. We provide low-cost workshops on a variety of business topics. We help our clients by recognizing the potential for failure early in the process. We counsel separated military personnel and people in the private sector to consider small business as a career alternative.

For example, SCORE has been very active at the Naval shipyard in Charleston, South Carolina which is closing, and at other installations around the country, including Orlando Naval Training Center in Florida; Mare Island Naval Shipyard in California; Grand Forks Air Force Base in North Dakota; and the Lowry Air Force Base in Denver, Colorado.

For people affected by corporate downsizing, we have counseled and provided workshops at the superconducting supercollider in Texas, Pratt Whitney plant in East Hartford, Connecticut, and the Martin Marietta plant in Pinellas, Florida. We help these displaced individuals to consider small businesses as a potential employer and to consider self-employment as a career alternative.

SCORE is active in all 50 States, the District of Columbia, and all territories. In fiscal year 1993, SCORE had 12,845 members who collectively represent over 500,000 years of business experience. SCORE members counseled 175,893 business operators and aspiring business owners in 232,434 sessions and conducted 3,909 workshops for 110,415 attendees.

Altogether, SCORE volunteers provided over 1.1 million hours in support of small business in fiscal year 1993. Based on the 1993 budget, SCORE cost the taxpayers $2.83 per hour. That is less than the Federal minimum wage, for good expertise and sound advice.

SCORE has been working diligently to reach out to women and minorities. Our chapters report that of the people who attended our workshops last year, 39 percent were women, and 14 percent were minorities. Of those who received one-on-one counseling, 41 percent were women and 18 percent were minorities.

Additionally, the SCORE board of directors has recently authorized the formation of a task force to recruit more women and minority volunteer counselors.

For fiscal year 1993, our budget was $3.08 million. For fiscal 1994, Congress increased SCORE's appropriation to $3.5 million, $500,000 of which we were instructed to spend on enhanced training.

For fiscal year 1995, SCORE requested $4.4 million. However, the administration's budget allocates only $3.08 million. That is $1.3 million less than requested and $420,000 less than fiscal year 1994, a sum almost equal to what Congress urged us to spend on training in fiscal 1994.

Our fiscal year 1995 request contemplated such additional SCORE services as enhanced training of the SCORE counselors, participating in SBA initiatives including business information centers and one-stop capital shops, increasing our ability to assist individuals or communities affected by defense or private sector layoffs, recruiting more women and minority SCORE members, providing our expertise in areas that are now underserved by SCORE, implementing SCORE's on-site chapter review where the operation of each of our 388 chapters will be reviewed by field managers.

Moreover, we recently took over from the SBA the administration of the out-of-pocket expenses incurred by SCORE volunteers in their counseling efforts. The SBA in many instances is not able to provide our chapters with office supplies, postage, photocopying and office space as they have done in the past. We have been told to expect the situation to get worse.

Without proper funding, we will be hampered in our objective to provide an increased quality of service to America's businesses and to aspiring entrepreneurs. 1994 marked SCORE's 30th year of service to America's small businesses. We appreciate the excellent relationship we have had with the SBA, SBI, and SBDC. These organizations each provide important services to different portions of the small business community.

Thank you again for allowing me to be here today. I would be happy to respond to any questions.

[Mr. Yancey's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much.

Our final witness on the first panel is Dr. Joseph Latona.

TESTIMONY OF JOSEPH C. LATONA, PRESIDENT, SMALL BUSINESS INSTITUTE DIRECTORS' ASSOCIATION

Chairman LAFALCE. I suppose Latona is a common name, but there are an awful lot of Latonas in the Buffalo, New York area. Do you have any relatives there?

Mr. LATONA. Yes, probably once removed, the judge who has high visibility in the area, and his nephew who I served with in Korea, a graduate from Purdue.

Chairman LAFALCE. Then we may be related.

Mr. LATONA. We might be.

Thank you, Chairman LaFalce and members of the U.S. House Committee on Small Business.

Chairman LAFALCE. It will have no influence on what we do about the Small Business Institute.

Mr. LATONA. I am Joe Latona, president of the Small Business Institute Directors' Association. It is certainly a pleasure to be invited here to present data regarding the most efficient management program in the SBA. I will present data to support that.

The mission of the Small Business Institute is to strengthen the small business sector of the free enterprise system, enhance the small business environment and support economic development through small business teaching, consultation and research with small businesses and communities by college and university students under faculty supervision. A practical way to describe the SBI is by its ultimate objectives, which is to say SBI is education and business consulting experience for tomorrow's leaders and business assistance for today's entrepreneurs.

SBI provides three sets of broad activities to the local business community. These activities are particular to the college and university situation, and were selected to maximize the contribution to the small business community from academe. The activities are consulting, research and training.

SBI is using student teams of senior level or graduate business students, under faculty supervision, to accomplish in-depth consulting projects that analyze the company and its specific problems. The student teams create and present to the managers of selected small firms a set of recommended strategies or operational techniques to resolve the specific business problems.

That was a short session, Mr. Chairman.

Chairman LAFALCE. The House is going into session at 10 o'clock, and immediately recessing, reconvening at 11 to hear the Prime Minister of India. It is my hope, in deference to the Prime Minister of India, that we can conclude the entire hearing by 10:50.

Mr. LATONA. All right, sir. I might be able to do that.

Chairman LAFALCE. Not just the first panel. The second panel too.

Mr. LATONA. In the teamwork process for the selected firm, an SBI student team will conduct market, economic and industry analyses to assist a firm. Similarly, the collective research of teams and the supporting faculty members is made available through the Small Business Advancement National Center to support other faculty and teams. Opportunity and understanding is created by SBI research.

Training is accomplished through a spectrum of college——

Chairman LAFALCE. Dr. Latona, could you please bring the microphone a bit closer?

Mr. LATONA. Sure. Is that proper? Thank you.

College courses are also made available to business owners and community leaders. Similarly, seminars and workshops are sometimes included in the SBI Program when SBDC and SCORE resources are not available in the area.

SBI led the effort to create a memorandum of understanding between the three SBA resources, SBI, SBDC, and SCORE, that prohibits competitive waste and promotes cooperation. Indeed, SCORE counselors sometime serve as mentors for the student teams.

SBDCs and SCORE sometimes nominate businesses for the indepth SBI consulting and research projects which they cannot accomplish. Similarly, SBDC and SCORE counselors sometimes follow up with a client to assist implementation of SBI recommendations after the SBI team has released the client.

Even though there is an MOU and the three SBA resources cooperate in the field, we must note that the SBI services are totally different from services provided by the SBDCs or SCORE Program. SBI projects are in-depth, semester-long research and consulting projects that draw upon many resources to provide the client a comprehensive consulting report that is impossible from the other resources. The SBA MIS report for the fourth quarter of fiscal year 1993 shows that SBI projects averaged 119 hours while SBDC projects averaged 5 hours and SCORE projects were 2 hours.

The SBI client receives both thorough written and oral reports concerning the consulting project. In addition, the entrepreneur is eligible for follow-up services from the other SBI resources—SCORE and the SBDC—in the field.

The SBI services are completely confidential for the client. All that is required of the client is time and cooperation.

SBI is a cooperative grant program between the U.S. Small Business Administration and about 550 schools, colleges and universities across the country that provides special education for students, opportunities for faculty, and that brings a special consulting program to small businesses in the many local communities.

Most SBI projects are completed for fall firms, but with prior SBA regional approval, SBI may conduct special economic studies for a community or a specific region in the SBA district. These special projects are also far-reaching research and consulting work that bears great fruit for the community or region.

Some important SBI impacts. The Federal budget for fiscal year 1993 provided for 6,030 small business cases. The budget for fiscal year 1994 provides for 6,000 cases. The fiscal year 1994 budget is $3 million.

Next, expansion of many small businesses into international trade. Actually in fiscal year 1993, 2 percent of the cases were to expand international trade.

One million two hundred fifty thousand hours of faculty-guided counseling are provided to small business clients by SBI each year. Private consulting at this level might cost $40 an hour. But most of our small business clients could not afford this private consulting. This free consulting is valued conservatively at $50 million.

More than 12,500 students—tomorrow's leaders—participate in the program annually. These young people are exposed to the entrepreneurial spirit, which is one of the greatest freedoms we have in your society. Opportunities in small business, and the requirements for jobs.

The 550 schools provide in-kind support of approximately $5 million per year. This includes office space, electronic equipment support, clerical work, telephone, fax, et cetera.

Free consulting provided by the faculty members in support of the SBI cases at fair market rates would cost more than $12 million annually.

From this set of factors we can calculate the SBI leverage for its $3 million budget as faculty-guided student counseling, $50 million; school in-kind support, $5 million; free faculty consulting in support of their SBI teams, $12 million.

Chairman LaFalce. Dr. Latona, you are now on page 3?

Mr. Latona. I am going to page 3, the top of it.

Chairman LaFalce. You have taken some time with the 2 pages and you have 11 pages of testimony.

Mr. Latona. No, I will just—this is groundwork for my summary.

Chairman LaFalce. Good. I wonder if I could ask you a question and ask you to respond to that question. It has been recommended by OMB that we eliminate all funding for your programs, correct?

Mr. Latona. Unfortunately, that is correct.

Chairman LaFalce. We probably have retentive capacity of about 5 minutes. In 5 minutes, tell us why we should reject the OMB recommendation to eliminate your programs.

Mr. Latona. Simply because of my next two statements. The leverage based on the $70 million is a factor 23.3. As you may note, in the next factor, which is a factor of 7, what this does in terms of a filtering process for loans that are granted to the clients, the status of small business report published every year has noted the decreased failure rates of loans which has been a contribution of the Small Business Institute and the in-depth case analysis used by officers to grant loans, expand loans or continue loans.

This factor cannot be ignored in terms of saving the taxpayers' money. If you want to use two terms to summarize, taxpayer and labor force. The taxpayers' money is protected by this filtering process of these in-depth analyses that are used for these decisions I just mentioned. Of course when those firms continue to succeed, they continue to hire people and expand their labor force.

So as far as savings of taxpayers' money and increasing the labor force, it is very profound. If you will, I also, as I mentioned earlier, what this does in terms of education of our next generation as far as implementing or inserting, if you will, or motivating the concept of free enterprise, the base of our whole economic system, these students have firsthand experience. They appreciate the vigor of small business owners in our economy and what they contribute. They are the foundation of our whole economic system.

You might note on the $3 million budget, the $7 million return. The savings of the taxpayers' money on these loans, there was embarrassment in the Kennedy and Johnson era with regard to high default. The contribution of SBIs is a direct result of lowering those failure rates.

Second, the increased knowledge of the entrepreneurial spirit, which is so critical to our economy and our society.

Third, the success rate of those startups in small businesses in terms of staying in business, being very viable and competitive, and hiring.

We all know that 10-year period of the 1980's that over 70 percent of those who entered the labor force were hired by small businesses. We cannot diminish also the concept of teaching tomorrow's leaders the benefit of the free enterprise system.

That is my summary. I thank you very much for allowing me to present this. I will entertain further questions.

[Mr. Latona's statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much, Dr. Latona, and all the gentlemen on this first panel.

Because of the fact that we do have the Prime Minister coming at 11 o'clock, I am going to defer my own questions. I am going to ask the Members to adhere to a 3-minute rule, if you will.

Mr. Poshard, do you have any questions?

Mr. POSHARD. I did have a couple, Mr. Chairman.

I wanted to ask Mr. Yancey, first of all, there is a tremendous amount of downsizing that is going on all over this country right now. I have an industry in my district I just got off the phone with in Decatur, Illinois, that is going from 750 people to 250 people. Huge problems associated with that.

What can you do to help people who are finding themselves caught up in those kinds of situations? What kinds of services do you provide for a 50-year-old person that has been working 25 years in a plant and now finds himself out of a job?

Mr. YANCEY. It is a very difficult problem, and we are attempting to address it in a variety of different ways. First, we can help them evaluate their ability to go into business for themselves, evaluate business opportunities that might be available, franchises, et cetera. We can help them to prepare for the interview process in somewhat of an out-placement capacity, and encouragement, I think, is something that is very needed for someone who has just been displaced, laid off. We used to say freed up their future, which is a very difficult situation. Those are the types of things we are providing. We do that through one-on-one counseling and workshops as well.

Mr. POSHARD. Is it usual that they participate in something like this? Do they consider it too high a risk factor to get involved in a small business at that age?

Mr. YANCEY. It depends. We seem to be getting good participation in workshops in situations that you have described. Many of those being displaced do have what they call a golden parachute that would provide for them some additional moneys that they could open their own business if they chose.

Mr. POSHARD. Thanks, Mr. Chairman. I will defer some other questions.

Chairman LAFALCE. Thank you.

Mrs. Meyers.

Mrs. MEYERS. Mr. Chairman, I do have other questions, but I know the time is short and we have a lot of Members here, so I am just going to ask one question of Mr. Anderson.

Do you have any estimate of fees to make up the amount that has been suggested by the administration, and is there any level of fee that would be acceptable to you at all, or that you think would be bearable, so that your services would still be workable?

Mr. ANDERSON. Well, first of all, Mrs. Meyers, the SBDC Program, we do charge fees. We charge fees for training, nominal fees for training, and we also charge fees in the electronic communications area, cost recoverable fees for on-line time and so on, when we are gathering information that way. So, in that sense the program is already charging fees for those things we think are necessary to recover.

In the counseling area, very frankly, we are opposed to any fees. That is because we are at the point of last resort in terms of those businesses that are cash poor and resource poor but have opportunities for growth. We just think very strongly that our relationship with the private sector and our relationship to these clients must be maintained. They are the driver, they are the engine of our job creation, and our new tax generation. I think we have to protect that, yes.

Mrs. MEYERS. Thank you very much, Mr. Chairman.

Chairman LAFALCE. Do any other Members have questions they would like to ask of this panel?

Ms. Velazquez?

Ms. VELAZQUEZ. Mr. Anderson, I would like to know how many minority and women-owned businesses are served by the SBDC Program, and what outreach efforts has the program conducted to increase the numbers?

Mr. ANDERSON. Mrs. Velazquez, I am sorry, I didn't hear the second part of that question.

Ms. VELAZQUEZ. What outreach efforts has your program conducted to increase those numbers?

Mr. ANDERSON. First of all, let me say that one of the very, very great problems we think we face in this program is our service primary to rural distressed communities and to urban communities, especially central urban communities. Our resources just are stretched too thin to provide the kinds of services that we need to in those particular areas.

However, having said that, we in 1993 counseled about 230,000 businesses nationwide and provided training to another 325,000 businesses nationwide. Our figures are much like what Mr. Yancey reported in the SCORE report. Thirty-one percent, 31.4 percent of our counseling base is women, and 25 percent of our counseling base, actually 25.1 percent of our counseling base, goes to minorities. Forty-three percent of our training went to women, involved women clients, and a little over 15 percent to minorities.

Having said that, I guess what I would say is that we feel very, very strongly that we need to do more in these particular areas, and we also know from our impact studies that assistance to women and minorities results in some extraordinary return in terms of the impact that we get. So, we would look forward to additional resources that could be targeted to these areas.

Thank you.

Ms. VELAZQUEZ. Thank you.

Chairman LAFALCE. Mr. Zeliff.

Mr. ZELIFF. Thank you, Mr. Chairman.

I am sorry I wasn't here earlier for your full testimony, but I just would like to make a comment.

Helen Goodman, who does the work that you do at the University of New Hampshire, is one of our outstanding assets. I think this whole program is terrific.

As you know, we have gone through some really tough times. I am a small businessman myself. I served on that board up there. We opened our doors to minorities, to anybody who needs help. We have helped keep doors open, keep people employed. It sometimes is a liaison where a person can't handle the projections and the mission statements that the bank requires. It is a tremendous safety net, and I think it would be tragic if we start charging fees for that when it is the last line of resort for many, many businesses.

But I want to congratulate you for the good work that has been done. I hope we don't go to the point where we start screwing it up so that the good work cannot continue to be done. I would just like to encourage us to recognize that it is one of the great things that is really working.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you.

I have often said what great respect I have for Mr. Erskine Bowles and also great respect I have for the Director of the Office of Management and Budget, Mr. Leon Panetta. But I must say that I find the argument that you gentlemen have advanced today more persuasive than the arguments that they have advanced to me.

I don't know what the disposition of this committee will be, but we will see what we can do.

I thank you.

Mr. ANDERSON. Thank you very much.

Mr. LATONA. Thank you.

Chairman LAFALCE. I wonder if the California disaster panel can come to the table.

Ms. WATERS. Mr. Chairman, I would like to thank you for the hours you are putting into these hearings. I am sorry I was late for the meeting today, because I and many other members of this committee really do need the information that we are getting with these hearings. So, I am very grateful that you are so focused and that you are helping to make sure we get educated on all of the programs of SBA.

Let me just welcome, if I may, the Members who are here. I guess you are referring to this as the California panel.

We in Los Angeles are very pleased and proud of the work that our disaster team did when it came to our area following the earthquake. I believe that we have one of the best FEMA Directors that perhaps this country has ever seen. His work, in cooperation with Mr. Cisneros and Mr. Pena was, again, very fantastic, and is commended by all on the local scene.

Having said all of that, I still want to hear today information that will help me better understand SBA's role in providing earthquake assistance, and how the amounts are calculated, and the timeliness of this assistance.

So I will be listening with great care, because we are still dealing with many of our constituents who are yet to be compensated.

Thank you very much, Mr. Chairman.

Chairman LaFalce. Thank you very much.

Our disaster loan panel includes Mr. Keith Ackerman, vice president of the Chatsworth Truck Center, Chatsworth, California; Ms. Laurel Linton, the president of Quick Cuisine, Sherman Oaks, California; Mr. Ronald Lederman, chief financial officer, The Main Source Electronics, Inc., in Chatsworth, California; Mr. Ken Bass, president of The Kitchen Store, in Culver City, California; and Mr. James E. Smith, a homeowner in Northridge, California.

Ms. Linton and gentlemen, we are delighted to have you with us.

For those of you who have prepared testimony, we will put the entire text of your testimony in the record, and you may feel free to either read it, if that is your desire, or to just summarize it, if that is your desire. I would ask each of you, though, to make an effort to confine your remarks to no more than 5 minutes.

We will go from my left, which is Mr. Ackerman, to my right, Mr. Smith, in order.

Mr. Ackerman, please.

TESTIMONY OF KEITH ACKERMAN, VICE PRESIDENT, CHATSWORTH TRUCK CENTER

Mr. Ackerman. Thank you, Mr. Chairman, members of the——

Chairman LaFalce. Would you pull the microphone over. Thank you.

Mr. Ackerman. Thank you, Mr. Chairman, and members of the committee, and good morning. I have written quite a testimony, and realizing this morning how this is done, and that is not going to work, I made some quick notes on what to touch on.

But especially you, Ms. Waters, please read it, because I am very impressed with the SBA. If it were not for their help, I would not be sitting here and I would not be in business today. I would have also lost my home.

But my name is Keith Ackerman, Chatsworth Truck Center, vice president. We have the largest truck dealership, commercial truck dealership in the San Fernando Valley. Our dealership takes care of mostly construction, moving people in the commercial line. We don't do any consumer work on trucks.

The domino theory was really in effect here, I guess that is the best way for me to put it, because with our operation being down, our customers could not effectively respond to the cleanup needs of the community or the rebuilding process.

In Southern California, as you know, we have had a real problem with the economy for the last 3 years. Most of the construction industry was either out of work or cut way, way back. That also affected our business by them being out of business. I did not do as much business.

Now here I am out of business and they need to be in business immediately. Their trucks need to be serviced, worked on, and in good running order so they can respond to the cleanup efforts. We have had a lot of personal people, a lot of private owner-operators of vehicles that were employed by the city instantly to help with the cleanup, the removal of block walls, chimneys, things like that.

That is pretty much the domino theory of me not being able to respond to them. By the SBA's quick action of coming out and verifying my damages at my home and also the business, I was able to start up again and service the customer base, also allowing the customer base to service the victims, other victims in the area.

The damages at my house were very excessive. I have a swimming pool and I didn't have any walls around the pool. With an elementary school just down at the end of the street, I had a little security problem, and a liability problem. I did not have any funds at that time because I was putting everything into the business. I didn't have any money to put up a chain link fence. I had to pay my employees because my guys had to work and things like that.

So with the quick response of the SBA, I was able to put up some fences around the yard and erect some block walls, which just got completed at the end of last week, which I am thankful for.

The day after it happened, I called up and got the numbers for FEMA and SBA. To this day, FEMA has not helped in any way in the business, and I have not seen anybody from FEMA. The lady at FEMA, however, told me of a place I could go pick up an application for SBA over in Pasadena, which was a facility that was left over from the fires that were in the Pasadena and Flint Ridge area. So, I went over there and met with a man who gave me the application, told me how to do it, went back home, filled it all out, I was there the next morning.

Within I think it was 10 days or so, I had a loss verifier, Sunday morning, 7 a.m., knocking at my door. My jaw hit the floor. I couldn't believe it. I am thinking the Government works this fast, and on Sunday, 7 o'clock in the morning? I was still asleep. Again, very impressed.

The loan officer, Ted Colan, would call me in the 3 days that he had the package to make a decision, he would call me an average of six times to get my input on what we needed, what were my immediate needs. If you had a loan of in excess of $400,000, are you guys prepared, do you feel with your forecast you are able to pay this back, things like that.

In the loan application or the loan officer segment of it, it was done in 3 days. Keith, this is what we are going to give you for the house, this is what we are going to allot you for your business. There again, the numbers were right on. There was not anything where I had to defend myself or go, Wait a minute. I had $500,000 of damage, why are you only give me $400,000? Because the numbers we came up with collectively with the loan verifier and the loan officer in conjunction with myself, which really made me feel somebody is personally giving me the attention, it wasn't, Here, this is what you are going to get, take it or leave it. It was very personal, and I appreciate that as well.

The legal department. When we deal with the Government—and please don't anybody take this in the wrong way on the board—but we usually deal with a lot of red tape. When they got to what was referred to me as the legal department, Rae Taylor called me. I immediately—I shouldn't say got an attitude, but I knew this was where it was going to stop. When people say "legal," we are talking about a lot of red tape.

Within 2 days, Rae Taylor had my application in, reviewed by the lawyer, and sent over to the verification, where from there, 1 day, it goes to check dispatching. So, basically from the time that I applied from the time where I got my initial funds, we are looking at 15 days. I was out of business, completely shut down for a solid 2 weeks. Through the help of my employees, which I had to cut their salaries back, but they came in and helped me pick everything up, sort through, pulled the roof off of trucks and things like that that had fallen in, and I thank them as well, while I am here.

So in closing, I just want to say thank you. Thank you very much. Although the three people up here before were talking about cutting money, sure, go ahead and cut the fat, but do not take away the funds and the ability to do for people what is needed. That is what I see as the SBA.

If it were not for the SBA—I know I have said this before and I may be repeating myself—but it means a lot to me, to know that right now, my partner and 22 other people are working, there are customers going in and out of my shop. If it weren't for that, I wouldn't have anything today, if it weren't for the SBA.

I thank you all.

[Mr. Ackerman's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Mr. Ackerman.

Our next witness will be Ms. Laurel Linton.

TESTIMONY OF LAUREL LINTON, PRESIDENT, QUICK CUISINE, INC.

Ms. Linton. Hello. Thank you. This was somewhat of an impromptu trip. I was called by Joe Sobota on Monday. He asked that I come back and testify, and it was a very difficult decision, but I made the decision because I owe the SBA so much. I don't know where I would be today if it weren't for the SBA. So, I came back, and I am going back tonight for my husband's 50th birthday. He wasn't too happy I came. Anyway, I was really committed to coming, because of what all of you have done and the SBA has done.

I am a college instructor by profession. I taught college for 14 years, and decided that I wanted to have a child at a late age. I had a child at 42, and I wanted to do something that would give me more free time, I thought.

Chairman LaFalce. Have a child?

Ms. Linton. So I decided to——

Chairman LaFalce. I became a father at 42, but it is not quite the same, I know.

Ms. Linton. It is not the same. My husband goes to work and comes home and night and says, How is Christopher and how was your day? I am only running a business, and taking care of a child has been an experience anyway.

I researched a number of businesses and decided to become an entrepreneur and used a lot of the money I had saved throughout 14 years of working at the college to purchase a yogurt store in the Sherman Oaks Fashion Square Mall. At the time I purchased it, the mall was pretty run down and being rebuilt and remodeled and updated.

The store was run down and it had been neglected for quite a while. I think the prior owner wasn't that interested in it. So, I took the store over, didn't know a lot about business, and worked night and day for over a year—before the child—to build a business. I spent a lot of time making the store unique and developing my own yogurt recipes. I had made it a very, very successful business. It pretty much completely supported my family, given that my husband's business was drastically affected by the recession. He owns a wholesale fish and meat company. It was pretty devastating when a lot of the restaurants would go under and it would affect his business. I continued to tell him, and I still do to this day, that he ought to go into my business, because it is a cash business, so people pay you on time.

But anyway, at the time of the earthquake, we were doing very well. I have 18 employees and two full-time managers, one of which just purchased a home with my help, and everybody was pretty excited. We were in the process of expanding, and I was just ready to sign another lease on another store in the Promenade Mall, which is in the valley. The earthquake hit and it destroyed my store. We lived in Redondo Beach at the time, and we were thrown out of bed by the earthquake. I had no idea—I didn't have any idea where the earthquake originated, and I certainly had no idea of the magnitude of effect on my life.

When I got up to the mall, I saw the devastation, and although I still had no idea how devastating it really was, I decided I would rebuild. The mall is a wonderful mall, and I didn't really think I would have to rebuild that much. I thought it would only cost me $20,000 or so to replace my equipment and to build the shop.

Anyway, I promptly called SBA because someone had mentioned it. I have never in life expected to use SBA or use any public assistance like this. But thank God for SBA, because I don't know where I would be today. I would have had to take all the money I had in my retirement accounts, empty them out totally and completely, to rebuild the shop. Because of SBA I have not had to do that.

I approached SBA by phone and got—I think it was a PT number, and they were so nice on the phone, and they must have been just dramatically overworked, but they were very nice, gave me the information I needed, and I went to the disaster assistance center across from our mall. The people there, again, were unbelievably kind, very knowledgeable, and the knowledge they didn't have, they found out.

They called Sacramento the day I was in there. I had a question that they couldn't answer, and they called right then.

I filled out the paperwork. Unfortunately, my bookkeeper that was in Sherman Oaks. Although his computers landed on the floor, he was able to salvage my information from my bookkeeping, so I could complete the loan application. There are many businesses up in the valley that lost all their data on—their computers were lost and they lost everything. So, it has made me reevaluate where I keep my information.

I have completed the location application, sent it in, made a phone call about 2 days later, and they had my loan package. I must have gotten a call every day from the SBA, asking me questions and updating me as to the process. I was really anxious. I am the type of person that likes to do everything yesterday, so I was—once I was somewhat over the emotional numbness of what I saw, my loss of my business, I was ready to rebuild and go back in there.

Of course I wanted to process all this yesterday, but they really unbelievably came through. In a matter of 2 weeks, I had a loan approval. I had an inspector the day after I turned in my own package. He said—the day I turned in my loan package they said, When would you like someone to come out? I said, As soon as possible. He said, How about tomorrow morning at 9:30? I said, Are you sure? He said, Yes.

I went to the disaster assistance office at 9:30 in the morning. He was right there, came over to my store. I said, I think it is probably not a lot of damage, I can try to replace my equipment and repair it. He said, your store is completely destroyed. At least $200,000 worth of damage. I said, No, it couldn't be. But you are the expert.

It has been just a little bit over that that it has taken me to rebuild the store. I lost every piece of equipment I had in the store. The $20,000 yogurt machine, which I just purchased in December for cash, is gone.

So, again, I don't know where I would be without the SBA. I got 18 employees, two full-time employees. We just opened the store on Saturday. It has been a tremendously long haul. We have all worked, many of my employees have worked other jobs, part-time jobs, and come back to work with me for free at night and on weekends. My contractors put in many, many hours. I am sure it is time he hasn't been paid for, to build that shop and get it open.

I was one of the most—I guess my store was the most damaged because I was connected to the parking structure and also the elevator, which fell down next to my store. My store is next to the main entrance. So, when the elevator fell down, it took off my side wall and pulled out my freezer and refrigerator. The back wall was pulled away by the parking structure. So, it took out a lot of my equipment that way.

So in all in all, the inspector knew what he was talking about, and I didn't. But I can only say if it weren't for the SBA, and the knowledge of the people and the hard work of the people, I don't know that I would have rebuilt. If I didn't rebuild, I don't know where I would be today.

Again, I didn't know anything about the SBA beforehand, and I am sure, as many of the people I have talked to are in the same position, they never thought they would need assistance, and because of this, we are now back working. I have got 18 employees that are now off unemployment, back to work, and we are going forward.

The store opened on Saturday to a big following. We are rebuilding our customer base. We are doing really well. I am looking forward—I have a really positive attitude right now—am looking forward to repaying the loan and expanding—building another store, maybe not in the valley, but I am interested in building and continuing to grow. So, anything that I can do to help the SBA, I would like to do, and I really appreciate the help.

Thank you.

Chairman LaFalce. Thank you very much, Ms. Linton.
Our next witness will be Mr. Lederman.

TESTIMONY OF RONALD LEDERMAN, CHIEF FINANCIAL OFFICER, THE MAIN SOURCE ELECTRONICS, INC.

Mr. Lederman. I am Ron Lederman, Mr. Chairman, members of the committee. We are in the computer repair business. We repair computer subassemblies, hard drives, floppy drives, power supplies, and we are located in Chatsworth about a mile from the epicenter.

To put it in the proper framework of what happened after the earthquake, you have to realize that everybody that lived through it, lived through a moment of terror that they thought would never end. It was the most frightening thing I have ever been through in my life.

The question was, was this the big one? I live in a condo in Tarzana, and the building seemed to shake forever. You could hear people screaming. You could hear glass breaking, not window panes, but glasses and china falling.

There were flashes in the sky from transformers crashing, and then it stopped and you heard women crying and people screaming at each other, Are you OK, and then looking for a portable radio to find out what had happened and where the center was, and finding out we were at the center, and the next morning going to work and wondering what we would find when they opened the doors.

What we found was just horrible. We were in about a 22,000 square foot, about 15 employees there, and we had rack after rack of hard drives that tumbled down. They don't bounce well. When you pick up the drive and it makes noise when you shake it, you can pretty well guess it is trash.

The equipment is very sophisticated and delicate, and that stuff was dumped on the floor. Then there were the aftershocks. Every time there was an aftershock, everybody ran, including me. We heard that the SBA had a seminar, and we went there, and they explained the program, we got an application, filled it out, verifier came a few days later and verified the loss, and we continued with our cleanup, which was just a mess.

The broken drives are of very little value. We had monitors that were broken. Once the tube goes, it doesn't pay to fix them. So, we hauled dumpster after dumpster load away. It look us longer to get through the SBA Program than many of these people. We had a larger loan, I assume. Our big problem wasn't the SBA. It was the bridge loan people. There was a program, we were supposed to get $200,000 under the bridge loan program. We got approval on it and then it was never funded.

We were told that interest rates had gone up and therefore the banks didn't want to get stuck with a 6 percent loan for 7 years. It caused some difficulty because we thought we were getting the $200,000, and so we made some expenditures that we might not have made at that point. We now have loan approval; we are waiting for funding. Had we not gotten funding, we would not have a business today, and those 50 people who work for us would be unemployed.

Although we are in Southern California, we do work on a national level. So, it is not a Southern California business that caters to Southern California. We cater to the entire country. We do some stuff overseas too, in Europe and in Canada.

The people who we dealt with at the SBA were outstanding, professional people. Our loan officer, who was stationed in Sacramento, was a retired CPA and ex-banker who came from Texas and was extremely knowledgeable about what he was doing. He understood our business by the time the package was completed. It was a pleasure to deal with both him and all the people at the SBA we dealt with.

Were it not for the amount of the loan and the interest rate and the ability to get it at a time that basically our net worth was wiped out, we would be out of business, people would be unemployed, and in my statement I said, on balance, where but the United States does the Government come to rescue us from acts of God? So I want to thank the SBA.

[Mr. Lederman's statement may be found in the appendix.]

Chairman LaFalce. Mr. Lederman, you read articles in so many magazines that criticize the SBA, they criticize the disaster loan program, and maybe some of you read that in the past and believed it. Maybe there is an element of truth, because every now and then things mess up. But on the whole, thank God we have these programs.

Mr. Lederman. Thank God.

Chairman LaFalce. Thank God. You are always going to be able to find fault, but, you have to see the total picture. You have to see the total picture. I think you are presenting the greatest portion of the total picture.

Our next witness is Mr. Ken Bass, president of The Kitchen Store in Culver City.

Mr. Bass.

TESTIMONY OF KEN BASS, PRESIDENT, THE KITCHEN STORE

Mr. Bass. Mr. Chairman and members of the committee, my that name is Ken Bass. I am the owner and president of The Kitchen Store. The Kitchen Store has been in the business of distributing cabinets for 25 years. The annual sales average is $1.5 million, and the business employs 12 people, the majority of whom have been with the company for over 10 years.

The Kitchen Store services three different markets. We sell kitchens to the general public, contractors buy cabinets for residential buildings, and the film industry utilizes kitchen cabinets on TV and movie sets. Three managers are responsible for sales in the different markets.

Mr. Chairman, the entire Nation witnessed the devastation of the January earthquake. The media covered the destroyed buildings and reported on the fatalities and injuries. What the media has not reported is the indirect effect the earthquake has had on small businesses, families and thousands of individuals.

The physical damage to The Kitchen Store was relatively minor. It consisted of window breakage, broken computers, and a section of the ceiling fell. However, the indirect damage to the business and damage suffered by the staff has been extensive.

The sales manager that worked with contractors packed up and moved his family to Nevada after deciding that California was too dangerous of a place to live. He had been with the company for 12 years, but during the earthquake he had to run to safety with his family as his apartment collapsed around him.

The sales manager that works with the film industry lives in the north—near the Northridge epicenter in the small town of Santa Clarita. His home is north of the freeway that collapsed. Prior to the earthquake, his commute was 90 minutes. After the quake it became a 2- to 3-hour nightmare.

The stress related to the lengthy commute has taken an obvious emotional toll on him. We have tried to accommodate him by reducing his work week to 4 days, with no change in salary, because after 15 years of service, we felt obligated to accommodate his needs. However, this has created additional financial burdens to the business.

The Kitchen Store clients involved in the film industry are typically from small production companies, many of which are near the San Fernando Valley epicenter. In some cases, earthquake damage caused production to actually cease.

The Kitchen Store is near two major freeways. The collapse of the major freeway and damage to other freeways has resulted in a decrease of customers who patronize the store from word-of-mouth referrals or are responding to advertisements.

A new kitchen is a luxury, not a necessity, and people have more pressing needs to address. Immediately after the disaster, we decided to seek financial assistance in order to survive this period. Although it is possible that the tremendous need to repair and construct buildings will increase business, a turnaround will take up to a year. If the experience of the 1993 fire storms is a reasonable gauge, construction will not even begin for 6 months.

In most residential buildings, kitchens are built after the basic structure has been completed. To maintain the business, I sought an SBA loan a week after the disaster. I waited 6 hours in line to receive an appointment, and I completed all the paperwork. I was assigned a loan officer in Sacramento. Less than 30 days later, I was notified that the application had been approved. This gave me great hope that the check would soon arrive.

Unfortunately, this is the point where the process seemed to come to a halt. Sixty days more would pass before I actually received the check. I don't believe anyone actually understood what caused the delay, although to some this might not appear to be a long delay, but when your income is stopped and your expenses continue, a 2-month delay can seem like a lifetime for a small, struggling business.

I would like too acknowledge and compliment the SBA and FEMA staff on the way they handled my particular situation. In spite of working long hours processing applications, I found the staff always to be patient and supportive, even returning phone calls.

However, I do not understand the reason for the delay in processing a check once the application has been approved. I hope that this part of the plan or part of the system would be examined and corrected if possible.

Thank you.

[Mr. Bass' statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Mr. Bass.

Our final witness on this panel will be Mr. James Smith, a homeowner from Northridge, California.

TESTIMONY OF JAMES E. SMITH, HOMEOWNER

Mr. Smith. Thank you, Mr. Chairman and committee.

I am not a businessman. I am a retired individual. I survived the Great Depression and the World War and Korea and then this experience. So, to lose a home due to an act like this, it is devastating.

In my summary, I went through quite a number of things, but I can't address what the other people have done about saving employees and employment. I can tell you how it affected us.

The damage to our house was rather extensive. I made the application to SBA at the Winnetka Center on the 29th of January, and on the 5th of March we had the SBA package on the way to us, with everything completed. It had been verified, the loan amount had been approved.

Chairman LaFalce. How much was that loan amount for?

Mr. Smith. One hundred eleven thousand dollars. Oddly enough—not oddly enough, it is a reflection on the accuracy of the people—the appraiser's amount was within $3,000 of the contractor that we eventually settled on. They had never talked to one another, obviously. But it was amazing how close it was.

The first $10,000 check was sent—and again, don't take this as a reflection on the U.S. Government, but the post office department had decided, since we had moved out of the house that we no longer existed, therefore they sent it back to SBA. That took another 2 weeks to get straight. Again, thanks to a young lady in Sacramento by the name of Anita Jenningss, that was done. Really super individual.

One thing I would like to address purely as a homeowner, we raised five children in the San Fernando Valley, in Northridge. They all went to school there. They are all over the world now. Anyway, they saw it on TV. Our older girl came up from Melbourne just to be there. Our youngest one came from New Jersey. But nevertheless, if it weren't for our kids, we would have lost our house completely. We could not afford to refinance it. We could break ourselves completely; we could borrow from our kids and rebuild the house.

So SBA has kept us in a recovery position. But again, I have to go back and—FEMA has not been any help to us. We have had—I kept a very close log of everything I had done. Wih FEMA—their contacts back to us have been minimal. SBA has been super. I have nothing but absolute praise for everybody in SBA for their reaction, their professionalism, their attitude, their initiative, and their interest. They are super people.

That is all I can tell you. I hated to break up like that, but it was a disaster to us, my wife and myself.

[Mr. Smith's statement may be found in the appendix.]

Chairman LaFalce. I thank you very much, sir. I thank all the panelists.

You see, I think you have performed a very valuable service. We have on this panel individuals from California and from the area affected by the earthquake. But most of us are not. Most of us have not lived through a disaster, we have not lived through an earthquake. It is difficult for us to fully appreciate, unless we hear from individuals who give us a firsthand account of their disaster experience, their earthquake experience, and then their experience with the Government programs intended to be of assistance.

Because Government programs are often criticized, come under attack, in order for us to defend it, we need reinforcement from individuals such as you. We can speak with more confidence, more assertiveness, as we promote these programs, defend these programs, try to improve these programs.

So I know you have come a long way from California. You have spoken briefly. But you have been of great value to the Government, to us, but also to individuals who will be in your shoes in the future.

You can go and tell your husband that on his 50th birthday, you gave maybe not him but people like you a tremendous birthday present through your testimony, Ms. Linton.

I don't have any questions, and I am going to ask the Members who aren't from California to refrain from asking any questions. I wonder if either Mrs. Waters or Mr. Huffington have any questions they would like to ask.

Mr. HUFFINGTON. Maxine, would you like to go first?

Ms. WATERS. Thank you very much, Mr. Chairman.

Let me thank the witnesses for coming such a long distance to give their testimony concerning their experience with SBA. It is a long way. I do this twice a week. I fly out of here on Thursday and I come back on Monday morning. I will tell you, it is a long way, and I really do appreciate it.

Those of you coming here, taking a day away from your business, I appreciate what that means also. I want to find out about the bridge loan. Who mentioned the bridge loan?

Mr. Lederman, would you explain to me where the application was made for the bridge loan?

Mr. LEDERMAN. The SBA package had two companies mentioned that were providing bridge loan financing. One of them was Hancock Financial, located on Wilshire Boulevard, down here Western Avenue. I brought a package down with them, met with them. They indicated the loan had been approved.

I forget who the two major lenders that were doing the bridge loans at that time. But they were processing our loan they said through Hominy Bank, which is a Korean bank in that area.

We were told the loan was approved and we would get $200,000. The bridge loan package allowed for 95 percent of the SBA loan up to a maximum of $200,000, and we would get $200,000 on a Monday. I was calling two or three times a day, because we had a decision to make whether to keep our business afloat. We were owed money from one of the principal's mothers in law. We borrowed money from her to cover payroll.

In my statement, the post office that feeds our business had collapsed. We weren't getting mail in. FEDEX and UPS weren't coming into the area. It was just a disaster. We really needed some extra funds.

About a week went by, and at that time interest rates had jumped, and the bridge loan people indicated to us that because the Fed funds had gone up, the Treasury notes had gone up I think to 7.7 around that time, that the banks didn't want to get stuck with a 7-year 6 percent loan if we weren't funded by the SBA. It just left us in a bad place, because we had anticipated the funding coming in, and it didn't come in.

I guess we had a larger loan and the time required was longer, but we really needed some funds from somebody to tide us over.

Ms. WATERS. Quickly, Mr. Bass, did you go to the Crenshaw Center? Was SBA in the Crenshaw Center that was coordinated by FEMA?

Mr. BASS. I didn't go there because the line was too long, so I ended up in Santa Monica.

Ms. WATERS. What do you think accounted for the delay if your actually getting your check?

Mr. BASS. We never figured it out. I was stuck in the legal department, basically. There was some sort of problem with the title company, working out title in the property we were using as collateral.

Ms. WATERS. Mr. Chairman, I maybe we can go back and trace that and walk it through and see what happened, so at that we can avoid that kind of thing in the future. So, Mr. Chairman, perhaps acting with the assistance of SBA and Mr. Bass's approval, we can walk back through that one and see why it took so long. It is a shame having people coming in here saying, Bang, bang, bang, and then to have you have experienced that kind of delay.

Mr. BASS. The approval process was really good, but that is when it stopped, after that.

Ms. WATERS. Thank you very much. Let me just say to Mr. Smith, it is all right to be emotional. We went through quite an experience out there, and for those of you at the epicenter, I don't know how you are still sane. I was a little bit further away from it, but I want you to know that we have a great appreciation for the trauma that was experienced, and our homes are our loved possessions, and when that which we have invested in, we have loved, we have nurtured, we have done everything to make our haven, is all of a sudden torn apart, it just takes a little bit of us away with it. So, I do understand.

Mr. SMITH. I think the thing that has impressed everybody we have talked to is the fact that our children saw it on TV, boom, they were here.

Ms. WATERS. You raised some good children.

Mr. SMITH. Their mother did.

Chairman LAFALCE. I am a softee, I can't go to a movie without crying, and as you cried, I cried. But primarily, how wonderful, how privileged, how fortunate you are to have children who when you are in trouble would fly from Melbourne, Australia, and New Jersey. That is every parent's hope that they will raise children who will love them and care for them when they are in need.

Mr. SMITH. The hard thing about that is on Thursday, the Thursday after the earthquake, they were all there. They had a meeting, and said, "Dad and mom, you have to move out." They told us, "out", on Friday night. That is a difficult thing for me to accept from my children, "You go." That is what we had to do.

Chairman LAFALCE. Mr. Huffington.

Mr. HUFFINGTON. Mr. Chairman, I want to thank the guests for coming from California. At 4:31 I was on the west side and in a high-rise. I think that thing shook and shook and shook, and I will never forget it, either.

Small businesses are very important to this country. Small businesses are producing 80 percent of the new jobs in America. So, I am delighted to hear a success story, because many times the Government does not work well. We know that. Sometimes it is the post office. But here is a situation that did work, from the testimony that you have given.

I hope and I agree with Maxine that we can figure out why in the few cases where there were delays, why were there delays. If this was a reasonable situation, that is fine. If it was not, perhaps we can correct it. Because unfortunately, in California, no doubt we will have another earthquake, and we will have the opportunity to rebuild again. That is part of our State. But we are optimists. We Californians believe in the future.

I want to thank you for being with us. It is a long way, but your testimony has been very valuable. Thank you so much.

Chairman LAFALCE. Again, thank you very much.

The committee adjourns.

[Whereupon, at 11 a.m., the committee was adjourned, subject to the call of the chair.]

REAUTHORIZATION OF SMALL BUSINESS ADMINISTRATION PROGRAMS

WEDNESDAY, MAY 25, 1994

House of Representatives,
Committee on Small Business,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LaFalce. The Small Business Committee will come to order. Today the committee resumes, and it concludes, its current series of hearings on legislation to reauthorize the Small Business Administration Programs and to modify the terms and conditions of those programs that it administers.

First, we will hear from a panel concerning their participation in the Microloan Program.

The original Microloan Demonstration Program was enacted in 1991 to assist women, low-income and minority entrepreneurs. This assistance was to be in the form of small loans, generally in the $10,000 to $20,000 range, made by entities called "intermediaries." These entities would obtain loan capital from SBA and would work very closely with the small business borrowers to provide them with intensive training and technical assistance in running the business.

The interest in participating in this pilot program can best be described as explosive. Originally we thought that we would get a good test if 60 organizations were interested in participating. Over the next year, demand was such that we increased this to 110 participants; and now the administration is seeking to go to 200.

At the same time, we found during the first year of the pilot's operation that the program was going to be considerably more expensive than we had thought if we were really to reach out with these very small loans which almost no one was interested in making, prior to the pilot. As a result, the same new law that increased the number of pilot participants also reflected Congress' decision: First, to subsidize the cost of the capital used by the intermediaries to fund the loans; second, to allow the intermediaries to charge a higher interest rate to their borrowers; third, to employ more Federal grants for counseling or training and technical assistance; and fourth, to reduce the matching funds the intermediaries were required to contribute as a condition of their participation.

We may need to adjust the program terms again. In this regard, I am pleased that we will hear from 4 of the 96 lenders which SBA has selected for participation in the pilot.

Second, we will receive testimony from a panel of three small borrowers that received financing through the old 503 debenture guarantee program. They are now confronted with exorbitant penalties if they seek to prepay their loans.

Proposals to provide relief from these penalties are not new to the Small Business Committee.

Indeed, I authored a relief bill which was vetoed by President Reagan in October of 1988; and in the next Congress, a similar measure was again passed by the House, but was killed by the Senate due to opposition by the Bush administration.

Although I am strongly in favor of providing some relief from these onerous penalties, we are in the midst of a major effort to reduce the deficit, and under Federal budget rules, this necessitates reduced spending for all agencies, including SBA.

Last year, I came to the conclusion that due to budget constraints we could not solve the problem in one budget year. These debentures were issued over several years, and thus, they necessitate a "fix" which would be paid for over several years.

Last November, I introduced a bill to do just this. H.R. 3655 would authorize an annual "buy-down" of the interest rate on these debentures and would provide a more limited form of relief for those who needed to prepay immediately due to unforeseen circumstances, such as the death of the owner of the business; and under that proposal, the costs would be spread over several years.

The administration has suggested a different, but also a very constructive approach. As explained by SBA, the Agency would take those debentures with the highest interest rates and offer them relief by paying the difference between the Federal Financing Bank penalty and the amount of the penalty under the 504 prepayment formula. There would not be a provision for "hardship" relief.

Either approach would be scored as costing money; for example, $30 million is included in the administration's budget request for this purpose. If we were to provide the relief requested by the administration to all 503 borrowers in 1 year, the cost would be approximately $100 million instead of the $30 million budgeted by the administration.

I commend the administration for recognizing the inequity of this situation and for joining with us in an attempting to seek a solution.

I am also heartened by the position of the National Association of Development Companies, NADCO, which testified last Wednesday that their membership was willing to forgo two-thirds of the normal origination fee if a 503 borrower refinances through 504. This essentially would allow us to help more borrowers each year at the same level of expenditures.

Do other Members have remarks before we begin with the first panel?

Mr. Lancaster.

Mr. LANCASTER. I have a brief statement, Mr. Chairman.

I commend you as you complete the work on hearings that would lead ultimately to the reauthorization of these programs, and am especially pleased to be here this morning because of my strong support of the Microloan Program. You indicated that when the program was originated it was an explosion with regard to acceptance, but not only was it explosive but it was very successful. There are stories after stories in my district of small businesses that owe their very existence to the Microloan Program. It has been very successful, and I hope we can reauthorize the program in a way that will make it even more effective for my district and across the country.

I want to welcome Ed Nicholas, the president of Timberlyne Cabinet Co. to the hearing. Though I know longer represent Angier, the hometown of Timberlyne, I did for 6 years and hope we will be able to address in a fair way the problem of the buyout of these loans.

Thank you, Mr. Chairman.

[Mr. Lancaster's statement may be found in the appendix.]

Chairman LaFalce. Thank you.

Mr. Wyden.

Mr. Wyden. Let me commend you for all the leadership you have shown in this area, particularly with respect to the now defunct 503 loan program.

We have thousands of businesses in our country caught in a very painful Catch-22. They have got a situation where they cannot afford the extremely high interest rates that are part and parcel of the program, and at the same time the prepayment penalties are so burdensome, sometimes as high as 40 percent of the original loan, they cannot afford to refinance.

I am told that things are so bad that some 503 borrowers are contemplating liquidation, literally going out of business because of the problems associated with the high prepayment penalty. So, what we have is a great irony here in the sense that a loan program, obviously designed to try to help small borrowers, instead causes those borrowers to go out of business, a loan program designed to encourage job growth but in fact threatens a new wave of unemployment.

Mr. Chairman, your leadership on this issue has been of extraordinary value over the years, and I joined in this fight in 1990. With a former colleague of ours, Rod Chandler, I introduced a bill which would have lowered this prepayment penalty.

I think it is important for the Members to understand where we are. In that regard, your statement, Chairman LaFalce, was very helpful. We were able to get absolutely no assistance, none, from the Reagan administration. We were able to get absolutely no assistance, none, from the Bush administration. Now, as you have noted, the Clinton administration is willing to come and actually put money directly on the table to go to bat for these small businesses—not just to say, they are for small business, but to actually put into the budget money, $30 million, to help pay for the offset. It is clearly not all that is needed, but it is certainly a start.

I think Members should know that we have finally gotten the attention of the executive branch after two administrations were not willing to give these small businesses the time of day.

Mr. Chairman, I would ask that a couple of things be put into the record. The Department of the Treasury has sent me a letter outlining just what the administration needs to offset the prepayment penalty problem, and I would ask that that, plus a couple of excellent newspaper articles that were written in the *New York*

Times and the *Washington Post* would also be made part of the record.

Chairman LAFALCE. Without objection, so ordered.

Mr. WYDEN. Thank you, Mr. Chairman.

[The information may be found in the appendix.]

Mr. WYDEN. Finally, I would like to conclude by saying that one of the real leaders in terms of the small business community comes from the Pacific Northwest, Ms. Doris Johnson from Vancouver, Washington, which really is adjoining my home district in Oregon. She has been a tireless and effective spokeswoman for the 503 borrowers, and we would not be as close as we are today to getting a solution without her good work.

I would also note that Senator Hatfield, our senior Senator from the State of Oregon, has been one of the champions of 503 reform as well.

Mr. Chairman, I thank you for all your good work. We have come a ways and we have more to do. It wouldn't have happened without your having made this fight for, lo, these many years.

I yield back.

Chairman LAFALCE. Thank you. If there are no further opening statements, we will hear from our first panel of witnesses. First we will hear John Freeman.

TESTIMONY OF JOHN FREEMAN, CHAIRMAN OF THE BOARD OF DIRECTORS, RURAL ENTERPRISES, INC., DURANT, OKLAHOMA, ACCOMPANIED BY SHERRY HARLIN

Mr. FREEMAN. Thank you, Mr. Chairman.

Chairman LAFALCE. Just 1 minute. I didn't have Sherry Harlin listed as a witness. We will hear from Mr. Freeman accompanied by Sherry Harlin; Cecelia Prinster; Tony O'Reilly; and Daniel Horvath.

Mr. FREEMAN. Thank you, Mr. Chairman.

Mr. Chairman, my position is that of volunteer board member and chairman of the Rural Enterprises, Inc. board of directors. Professionally, I am president of a community bank based in McAlester, Oklahoma with branches in three other Oklahoma communities. I appreciate this opportunity to address and testify to the need and success of the U.S. Small Business Administration's Microloan Program. This innovative approach of assistance to small businesses and entrepreneurs has helped many individuals realize their dream of starting their own business or expanding their current business.

The SBA Microloan Program is the breakthrough these creative and industrial people needed, for without it, in most cases, their dream would have remained just that, a dream.

Additionally, it has also provided local financial institutions and its customers with a solution to a common problem. Many times, banks have requests for small loans from good, solid customers but policies, regulations or other situations do not allow the loan to be made. Now financial institutions have an excellent alternative to offer their customers.

The SBA Microloan Program is complementary to REI's overall economic development programs. REI is a private, nonprofit organization established in 1980 to provide assistance to individuals and businesses to improve the economic conditions of southeast and south central Oklahoma. REI packages short- and long-term loans and is a Certified Development Company for the U.S. Small Business Administration.

REI's other small business assistance includes the Rural Technology Applications Team which evaluates development in industrial technology, and the Industrial Incubator Program which provides startup business with a place to start, to grow and to be nurtured. Most recently, REI added an Equipment Pool Project to its incubator program. The equipment pool helps to meet equipment needs for new businesses and to the best of our knowledge, REI is the only firm in the State with such an Equipment Pool Project, the result of a competitive grant awarded by the Office of Community Services Discretionary Grants Program. Some of REI's industrial incubator tenants have also become microloan clients.

The McAlester community can testify to the value and impact of the Microloan Program. An example is a call received at the very start of REI's association with the Microloan Program. The call was from 25-year-old, Billy Hearod, who had just lost his job, along with 150 other people, when the company he worked for moved their "cut and sew operation" from our town to Bulgaria. Billy had 6 years of management training and felt that he could develop a market using available used equipment and utilizing the existing trained labor force.

At that time, about all he had was an idea. However, to make a long story short, I referred him to Sherry Harlin who handles the Microloan Program for Rural Enterprises and through the program he was able to start his own cut and sew operation. He now has 25 employees, contracts with five major companies to produce T-shirts, and has reached a point of profitability and equity to allow my bank to make him an Accounts Receivable Line-of-Credit.

Rural Enterprises, Inc. received funding of $500,000 from the SBA for operation of a Statewide Microloan Program in late September, 1993. State Senator Billy Mickle and State Representative James Dunegan introduced legislation which allowed for $150,000 by the Oklahoma Finance Authority, needed as matching funds, bringing total microloan funds available Statewide to $650,000.

As of April 27, 1994, microloans closed totaled $371,011, representing 27 small business and entrepreneurs. Eight of these loans were for the $25,000 maximum with the remainder ranging from $6,000 to $17,500 with an average loan size of $13,741. Approximately 85 new jobs have been crated as a result of these microloans. A report of April 27, 1994, shows 78 loan requests had been received. The loan dollars requested totaled $1,077,996.

The type of borrower is a mix of women-owned and minority unable to obtain financing through traditional means; however, REI's microloan client base is extremely varied in nature including start-up and existing businesses, service and manufacturing businesses. A sampling of REI clients shows this diversity: A manufacturer of thermo plastic fishing boats, a day care center, motorcycle repair shop, ceramic gift shop, helicopter tourist touring business, small town cafe and grill, home-based travel service, commercial lawn service, beauty supply house, boot and saddle repair, and two loans were for woman-owned court reporting businesses.

Just as diversified as the nature of the businesses served is the territory covered. Microloans have been awarded to businesses in 19 different communities including the metro areas of Tulsa and Oklahoma City, with the majority reaching out to entrepreneurs in rural Oklahoma communities.

A real plus to REI's Microloan Program is the development of joint ventures with other economic development groups to market the program. For example, Oklahoma electric cooperatives have recognized the need for programs to finance small, home-based businesses and others lacking sufficient capital and collateral to qualify for traditional lending programs. The cooperatives and REI have worked together to sponsor orientation meetings, training sessions and client workshops regarding the Microloan Program. Specifically, the cooperatives will be a distribution outlet for applications, a center for microloan promotion and screening of applicants. REI will process the application, handle the loan closings and direct expense reimbursement.

The nature and extent of applicant counseling revolves mostly around the client's lack of business background and lack of understanding of the need for current financial and cash flow statements. We believe the joint effort with electric cooperatives and other development groups, the orientation sessions and the proposed workshops will be a big part of the solution to this problem.

Presently, the client is informed of the information and material they need to complete their application and then directed to resources to assist them in the preparation of a business plan, such as area vo-techs, Small Business Development Centers and SCORE.

Perhaps the biggest challenge REI has encountered is keeping pace with the demand which has been so phenomenal. To meet the demand, REI has increased its staff, and the additional staff now allows REI to give more precounseling and assistance, expand its follow-up efforts and basically better fulfill the business assistance needs of the clients. REI is also having some difficulty in meeting the client's total marketing needs for brochures, flyers and other promotional material. Under the program, design needs such as this cannot be contracted out, making it difficult for REI to carry out this area of responsibility as well as it would like because of the specialty of design work and the amount of time required to complete a marketing piece.

REI has found the maximum interest rate as determined by the SBA is adequate and the organization would not recommend the maximum rate be increased. REI does, however, see a need to restructure the terms of the loan to the intermediary to allow for a longer payback period to SBA. A longer payback would permit the intermediary to buildup a revolving loan fund, assuring longevity of the Microloan Program with adequate funding. Concerning the requirement of matching funds, REI finds this satisfactory.

Regarding expectations of program demand, REI anticipated the demand for the Microloan Program would be great, but the demand has far exceeded our expectations. We also believe the demand will accelerate as awareness of the Microloan Program increases.

Cost of counseling under the Microloan Program has totaled \$19,418.52. This expenditure may be considered somewhat low because it is only recently that REI has increased its staff to meet the demand for technical assistance.

REI has reviewed H.R. 4297 and the proposed amendments to the Microloan Program. We understand and recognize the need and concern of the SBA to stimulate greater activity through a proposed increase in the number of intermediaries as well as the utilization of local "participating lenders." It is felt the strategy and concept of the proposed amendments are good. However, since REI is a statewide rural micro lender, a roadblock we have encountered numerous times is that the participating lenders may request a guarantee that the funds be used in their respective communities. This could not be guaranteed and would prohibit many lenders from participating.

The other concern would be that cost of funds to the intermediary would increase; therefore, the cost to the small business would increase.

If these items of concern could be addressed, REI agrees with the proposed amendments and would support a pilot program.

The most predominant ingredient of the Microloan Program is that it encourages the entrepreneur spirit, the kind on which this Nation was founded and built. We would not be enjoying modern-day conveniences and technologies were it not for some entrepreneur who had a creative idea and the determination to pursue it. The fact that some individuals are at an economical disadvantage makes them no less creative or industrious than the individual who has the necessary resources. The Microloan Program gives renewed hope to the entrepreneur and all of us are the benefactors.

Thank you for the opportunity to testify.

Chairman LaFalce. Thank you very much Mr. Freeman.

Cecelia Prinster, executive director of the Greater Denver Local Development Corp.

TESTIMONY OF CECILIA H. PRINSTER, EXECUTIVE DIRECTOR, GREATER DENVER LOCAL DEVELOPMENT CORPORATION, DENVER, COLORADO

Ms. Prinster. Thank you, Mr. Chairman, members of the committee and distinguished guests. I am pleased to have this opportunity to present to you some background about the Greater Denver Local Development Corp. and how the SBA microloan demonstration program has affected our borrowers, our organization and our community in Colorado. I have also been asked to comment about proposed changes to the program.

GDLDC is a private nonprofit corporation making microenterprise loans to small businesses in the five-county metro Denver area. For over 10 years we have been providing loans to very small businesses which are excluded from traditional financing sources because of lack of equity, short operating histories, location in low-income neighborhoods, or just the small size of the business. Our program is founded on the belief that business ownership should be a choice, an opportunity available to every hard-working intelligent American, regardless of race, gender, social or economic background or lack of formal education.

In 1992, GDLDC was chosen in the first round of 35 intermediaries for the SBA's innovative microloan demonstration program. As a result of our participation in this program, we have broadened our lending base, doubled our loan portfolio and expanded our technical assistance for emerging business. The program has increased our visibility and enhanced our credibility in the business and financial communities, enabling us to form effective partnerships with banks and community groups who are interested in microenterprise.

Our borrowers are involved in all types of businesses, including small manufacturing operations, service ventures, retail stores, restaurants and distributorships. Our loans have been used to purchase equipment, provide working capital during a startup or expansion phase, smooth out cash flow during a receivable cycle, purchase inventory and finance tenant finish. Our average loan size is $11,007.

So what can $11,000 do to make a difference for small business? For example, we made a loan to a Hispanic couple who wanted to expand their commercial printing and equipment repair business to acquire a used equipment inventory for refurbishing and resale. Our loan enabled them to add a product component to their service capabilities, thus diversifying their business and increasing their profitability.

Another loan helped a young Hispanic man to start a home-based computer graphics business when his job with a large company was eliminated. Our loan enabled him to purchase the computer system needed to do contract work in a very sophisticated industry. He is now enjoying the independence and flexibility of being his own boss. He has been so successful that now he is hiring an employee to help him service the client base he has developed on his own.

Another loan went to a woman-owned cartography business which enabled her to hire three employees and purchase the equipment needed to fulfill mapping contracts with the National Park Service and Forest Service.

An African-American couple who own a small neighborhood convenience store near their home in a low-income neighborhood wanted to refurbish the building and increase the inventory in the store. With our loan, they have updated the appearance of the building and improved the inventory selection, thus contributing to the revitalization of their neighborhood.

One of our loans helped a woman who invented a play pillow for babies to launch her product to a national market. Another woman borrower is manufacturing her own brand of salad dressing. A woman from Paraguay expanded her successful empanada take-out window into a full service restaurant with her loan proceeds. An immigrant from Ethiopia now has a computer training center. Another man purchased a bagel machine and now has more business than he can handle.

The list goes on, but the fact is that none of these businesses, these people, these hard-working entrepreneurs could have accomplished their goals without the critical access to capital which our program has provided. As a result of our loans, jobs have been created for the entrepreneurs and others.

Money is important, but it doesn't ensure success in a small business. That is why our loan program combines financing with business technical assistance. Our business counseling, workshops, mentorship program and training are designed to nurture borrowers' capabilities and enhance their financial and management skills. Our program provides not only the access to capital but also the business support which is critically needed to succeed in today's competitive economic environment.

Although we have been making microloans for over 10 years, GDLDC is now coming into full bloom as a community financial resource. I attribute this success to our 10 years of experience in microlending, our solid capital base from private sources, and to our participation in the SBA Microloan Program, which has raised our local efforts to a national priority.

The SBA Microloan Program has not only provided capital for us to meet the financing needs of nonbankable small businesses in our community. It has also enabled us to enhance our technical assistance capability, which is the critical support factor making a difference in the success of this lending program. Without the microloan grants for operations, it would be impossible to raise the ongoing operational funding to implement our technical assistance program properly.

From the beginning, I have been impressed with the overall concept of the SBA Microloan Program. I believe the use of nonprofits, who are not constrained by the traditional banking outlook on very small businesses, infuses creativity into the financial community. The program's emphasis on providing technical assistance to borrowers maximizes their chance for success, recognizing that there are educational and training needs which entrepreneurs can only learn on the job in the context of their own small business.

I think that the program's requirement of matching funds is reasonable and fair because it holds the community responsible to "ante up" for something which is important to it. Just as our loan program is not a giveaway for the borrowers, I think it is fair that the community should be required to contribute financially to a program like this which has such enormous potential for economic and social impact.

Overall, the SBA Microloan Program has been very user friendly. It has been implemented by the SBA so that the nonprofit is not overwhelmed with onerous Government forms and reports. The program is also user friendly for the borrowers, many of whom would be intimidated by working with banks or bureaucracies. By working with organizations like ours, they can enjoy the financial and technical support offered by a nonprofit intermediary who is committed to their personal and financial success, and who can prepare them for the requirements of a traditional banking relationship.

I have found the SBA to be very responsive to the users of the program. They have made commendable efforts to incorporate feedback from the field into the program design and implementation, which is why the proposed legislation is before you today.

As I understand it, this bill seeks to expand the program in several ways. First, allowing the SBA to guarantee loans made by participating lenders encourages banks and other nongovernmental entities to get involved in microenterprise development. However, I am concerned that by adding participating lenders who will form lending alliances we are creating a bureaucracy. I am afraid that participating lenders might impose their own values and objectives and costs on nonprofits, which would dilute the original intent of the program. I would resent having a participating lender who is not involved in my community exert control over my program which would detract from serving the needs of our borrowers.

It might also add more administrative responsibilities on nonprofits like ourselves, thus increasing the funding burden and distracting from the direct service aspect of our business.

The Microloan Program should not be micromanaged. The beauty of the program now is that it is a grassroots program which is flexible and responsive to the needs of the local community. Please do everything to ensure that these qualities are preserved.

Expanding the number of programs is a must. I get calls every week from people who are out of our service area who could benefit from a similar program in their own community. Also, increasing the ceiling of available capital will be necessary as the programs become more utilized.

One other area of improvement to the program which is not in the proposed legislation is the necessity of having grant funds for technical assistance available for the entire 10-year life of the loan to the intermediary, rather than just the 4 years under the original legislation. To ensure that the program will be a good, long-term investment of public funds, access to capital for microenterprise borrowers must always be coupled with technical assistance.

It would be impossible for the nonprofit intermediaries to raise private funds to cover the full cost of technical assistance needed to make this program work. Therefore, grant funding must be available for the full 10-year term of this loan to support the technical assistance activities of the nonprofit intermediary.

By enabling people to own and operate their own businesses, they can develop the leadership and decisionmaking skills to act as role models for others, their children, their neighbors, their community. By supporting minority- and woman-owned businesses, we are creating a more diverse economy, capable of great creativity and responsiveness to the needs of the marketplace. By focusing on the importance of microenterprise in local communities across this Nation, we are not only promoting revitalization of our economy, but also raising the hopes and spirits of people who desire to be independent, contributing members of our society by owning their own businesses.

Thank you, Mr. Chairman and members of the committee, for allowing me to share my experiences with the SBA Microloan Program and my opinions about its expansion. I commend you for your support of microenterprise as an economic development strategy with unlimited potential.

Thank you again.

[Ms. Prinster's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Ms. Prinster.

Before we proceed to Mr. O'Reilly, I notice that one of Congress' strongest champions of the Microloan Program, Congressman Brewster of Oklahoma, is here. I wonder if there are comments he might wish to make at this time.

Mr. BREWSTER. Mr. Chairman, as one who certainly is a supporter of the Microloan Program and who has had an opportunity to see it work through rural enterprises in my district, I think that all of us can serve very well by supporting these types of programs.

We are very fortunate to have John Freeman, who is president of a bank in our area, take the time out of his schedule to work with Rural Enterprises and help make this happen. Their success has been phenomenal. They have a very low default rate, I think around 1 percent; and they are servicing loans that banks traditionally can't do.

So they have created somewhere in the neighborhood of 85 to 100 new jobs in our area, and all of us realize that small business is where new jobs will be created in the future.

I would like to encourage the committee at every opportunity to look toward opportunities like the Microloan Program and others, because they are doing a wonderful job helping us in rural areas. Our constituents are doing well, our communities are growing, and that is what we need.

Chairman LAFALCE. Thank you very much, Congressman. We appreciate those comments.

Our next witness will be Tony O'Reilly, executive director of the Small Business Corporation of Savannah, Georgia.

TESTIMONY OF TONY O'REILLY, EXECUTIVE DIRECTOR, SMALL BUSINESS ASSISTANCE CORPORATION, SAVANNAH, GEORGIA

Mr. O'REILLY. Thank you, Mr. Chairman. The Small Business Assistance Corporation is a county-wide 504/503 Certified Development Company, founded and licensed by the Small Business Administration since August 1982. Our purpose is to assist small businesspersons to elevate their status and increase their participation in Chatham County's free enterprise system.

As a nonprofit 501–C6 business development group, Small Business Assistance Corporation has been in full operation since September of 1989. Our office provides the following services and products to our clients:

Financing for new and existing businesses through SBA's section 7(A), 7(M) Microloan Program, 504 loan programs, the city of Savannah CDBG resolving loan funds and a variety of other private sector-driven and donated funds.

Provision of management and technical assistance micro- and small-size businesses in all phases of their development.

Contractor and vendor development programs to increase public and private sector business opportunities for small businesses.

Dissemination of information concerning local business issues, program resources that are available to support small business growth.

Generation of economic studies that are relevant to the day-to-day operation of small business concerns.

Since 1989, SBAC has offered this complete line of services from prestartup counseling to follow-up management and technical assistance. We prioritize service to women- and minority-owned business persons throughout our service area. With funds from the city of Savannah, SBA, Chatham County Board of Public Education, SBAC operates to enhance the local business environment in a systematic way.

Our program pursues three strategies: Access to capital, access to management and technical assistance and business opportunity. We believe that a thriving small business community is a crucial element needed to accomplish a vibrant, job-creating economy. Total loan volume since inception is $22,755,379 in business proposals being approved. This is a cumulative total of a variety of seven loan programs now in place and being offered to our business community.

Through outreach, comprehensive loan and business packaging, management and technical assistance, we hope to improve our small business economy of Savannah, Georgia and the surrounding area.

We are a micro microlender. We signed our $175,000 microloan note in August 1992. Our first loan was made to a startup delicatessen in November of 1992. The program has been in operation approximately 21 months. Our boundaries of operation for the SBA microloan include five counties surrounding Savannah, four being rural.

As of April 1994, SBAC has approved 28 microloans at an average size of $6,796. The interest rate on these loans is 10 percent, fixed. The average loan maturity is 22 months.

In keeping with our organization's mission to focus on women-owned and minority-owned business entrepreneurs in low- to moderate-income neighborhoods, 50 percent of these loans are made in such neighborhoods. Eighteen percent of the microloan portfolio is in rural defined counties. Fifty-seven percent of all loans went to women-owned businesses or would-be owners. Sixty-four percent of SBA's microloan recipients were minorities. Eighty-two percent of the loan projects were business startup applications.

These loans fall into a high-risk classification due to them being startups, small loan or equity injection, and just the small size of the loans themselves. Nevertheless, the portfolio operates within what we consider a reasonable default rate, given our 15 percent reserve.

The current rate of default defined as over 90 days past due, it is 5 percent on dollars and 11 percent on loans. The average loan in default is approximately $1,000. This rate is calculated prior to the liquidation of collateral. We are satisfied with the program's loan portfolio performance, although we have made adjustments in our Peer Lending Program to improve repayment there.

The program has created 28 jobs at an average loan cost of $5,103. When the Federal share of SBAC's technical assistance grant is factored into the equation, the average Federal cost per job is approximately $8,200.

Overall, SBAC has concluded that the SBA Microloan Program is a viable program that creates access to much needed capital for small business projects started by women and minorities. It certainly fills a gap in the Savannah area financial marketplace. SBA's underwriting criteria we find to be flexible enough for us to design our programs to meet our own local priorities. The relative few, when compared to other program options, i.e., CDBG, restrictive requirements meet the test of reasonableness given the level of risk SBA can prudently take with taxpayer money. As SBA's program advises, however, we are tempted to tighten our own underwriting criteria to reduce financial risk to our organization in the event that we lose borrowed money.

Management and technical assistance are critical to success of any microloan agenda. It is important, however, to balance the need for education and technical training with the need for immediate cash. At SBAC, we believe it is more important to get the microentrepreneurs in business to allow them to exploit the market niches that they have identified. Continuing management assistance that is coupled with assertive loan servicing and collections ensures the survivability of the small enterprise and repayment of the loan.

SBAC works closely with other SBA resources to improve the viability of our technical assistance program. SBDC and SCORE actively participate in microloan client sharing. Technical assistance grant procedures have proven unclear and a bit risky to use because what is eligible hasn't been made clear at all times. Timing and the use of proceeds issues still need to be resolved, i.e., administration, contracting and other places. Recent developments in matching requirements and administration for second-round intermediaries have been welcomed.

SBAC is aware of significant demand and need for access to microbusiness loans in our market. In spite of our low key approach to promotion, we will receive an average of five inquiries per day regarding loan possibilities, many from beyond our designated service area. Our service area is a 1.5-hour drive-time radius from our office, which sits on the river on the other side. At this time, we have no problem keeping the required principal balance loaned out to assure adequate cash flow to meet the terms and repayments of our loan to SBA. We will not satisfy the real demand for small loans. There is a real need for more qualified intermediary lenders to fill the needs of entrepreneurs.

SBAC is reluctant at this time to expand our volume or to borrow more money from SBA or to expand our geographic boundaries. Microlending, in our opinion, to be effective over the long haul, must be a case management system with assertive collection policies in place. A regional approach to delivery will diminish an intermediary's ability to assess viability of applications. It would return SBA to the past problems of the direct loan programs emanating out of their own district program.

High program costs, higher financial risks associated with large volumes and geographic expansion compels SBA to increase the number of qualified intermediary lenders to meet the pent-up demand for smaller loans.

In closing, the U.S. Small Business Administration is our country's leader in small business development. We are encouraged that they are poised to take a lead role in developing small scale enterprise. We commend the administration's decision to address the unique capital and management needs of microentrepreneurs.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you.

[Mr. O'Reilly's statement may be found in the appendix.]

Chairman LAFALCE. Our final witness on this panel Mr. Daniel Horvath, president, Community Equity Investments, Pensacola, Florida.

TESTIMONY OF DANIEL R. HORVATH, PRESIDENT, COMMUNITY EQUITY INVESTMENTS, INC., PENSACOLA, FLORIDA

Mr. HORVATH. Good morning. I am the president of Community Equity Investments in Pensacola, Florida. We are a not-for-profit community development corporation serving all of northwest Florida, which comprises a 15-county service area ranging from Pensacola to Tallahassee.

CEII is a 20-year-old community development corporation operating a number of small business loan programs and affordable housing development programs. We have a grassroots community membership and a board of directors elected by the community. CEII is proud of our community roots and our programs are governed by that grassroots membership.

Our goal has been job creation through small business lending, as well as affordable housing development. I have a program brochure which I hope all of you have received so you can get an idea of the scope of our program.

In small business lending, we started out 12 years ago with a Florida-funded program which provides CDC's with administrative grants and loan capital. Using this Florida-based program, we have made almost $4 million in loans during this 12-year period. That constitutes 100 small business loans to businesses that have created 480 new jobs in the Escambia County area, which is the westernmost county in Florida. Our cost per job is $8,333. Of the 100 small business loans that we have made, we have a loss rate of only 3 percent.

We have strong bank participation in our program. Banks are involved with us on our loan committee helping us to review the creditworthiness of our loans, and they buy and service all the loans that we make through our revolving loan fund program. This model has been so appealing that the State has used it as a model for all other community development corporations that wish to operate revolving loan funds.

Based upon the experience that we have had in making microloans through the State-funded program, we applied to the SBA for participation in their demonstration loan program. We were successful in becoming 1 of the 35 programs selected for the first year of this new program.

Since we started the program roughly a year-and-a-half ago, we have made 48 microloans. These loans total just under $800,000 and they have created or maintained 129 jobs in the 15-county service area I mentioned. We have been approved for the maximum possible loan amount of $1.25 million, and we are presently receiving the maximum training and technical assistance grant of $312,500 a year.

We have a staff of four full-time professionals working on the Microloan Program. We provide extensive training and technical assistance on both a pre-loan and a post-loan basis. Our average loan is $16,500. About half of our loans have been made to African-

American-owned businesses. Women-owned businesses have received 41 percent of our loans. About half of our loans are startups.

Among the loans that we made are loans to beauty salons, funeral homes, bookkeeping services, realtors, clothing stores and a number of other types of businesses.

I have attached a loan summary which provides information on the types of loans that we have made, size and terms.

Some of the areas of concern that we have with regard to the operation of the program deal with the matching funds that intermediaries are required to provide. We need to provide a 35 percent match. In the first program year, this match was only required to be non-Federal; in the second year, this was expanded to include non-borrowed non-Federal funds. This provides a real problem to us. As nonprofit programs, we have limited access to non-borrowed matching funds.

In our case, in the first year, we used our State loan program to leverage the SBA Microloan Program. Because non-borrowed funds are now no longer eligible, we couldn't do that in the second program year. Fortunately, we had some funds in our housing program that were equity dollars that we could reprogram and use those in our Microloan Program; and thus, we were able to provide the match that was necessary.

We feel that if funds are available locally, particularly if they are State-funded funds, that those State dollars should be able to leverage participation into the Microloan Program, even if they are borrowed dollars. I urge the committee to look into the issue of the non-borrowed funds requirement.

Another restriction in the program is that funds cannot be used for real-estate-related purposes. We can use microloans to provide working capital, to buy machinery and equipment, but if a leaseholder wants to fix up their leased property or a property owner wants to fix up their property—and we are talking about minor expansions that are $25,000 and under—we cannot provide those loans through the Microloan Program. I don't see any reason for that restriction.

Because of the small size of the loan, most banks are unwilling to provide loans of $25,000 and under even if there is some real estate collateral. This is a real market niche that the Microloan Program should be able to fill, and the restriction on real-estate-related lending just doesn't make any sense to us.

The maximum loan size that we presently operate under is $1.25 million; we are approved for that level of lending. In our first year-and-a-half, we have already gone through about $800,000 in funds. We anticipate limited difficulty in using the full $1.25 million over a 2-year run.

The program expansion presently being considered would approve an additional $500,000 per intermediary. We think that is a step in the right direction. I feel, however, that for multicounty programs such as ours, the $1.75 million limit is not adequate. We recommend a $2.5 million size as a more suitable program range. We feel the program is operating very successfully as it is set up now, and we would hate to close down our loan operation because we ran out of money. We have a 15-county service area; the demand has been phenomenal, and we feel that the $1.75 million is not sufficient to meet the demand that is out there.

Another issue deals with the use of training and technical assistance funds only for borrowers. Most of the folks we talk to in the Microloan Program do not become borrowers. There are inquiries from folks wanting to know about the program, there are applications that we receive, and yet most of those individuals do not wind up becoming borrowers.

We have a series of screens that applicants must go through before they actually get a loan. We have estimated that it is about 50 to 1 of inquiries to actual borrowers. This is to the benefit of the program in that we make better-quality loans, loans that are not likely to go into default because they do go through a rigorous screening.

It is also to the benefit of the borrower. We have found that some of the best loans we look at are the loans that we don't make. It is to our benefit in that we don't lose the money and it is to their benefit in that they don't have a negative experience in going into business ownership.

By having developed the experience that we have in operating a loan program, we can identify businesses that simply won't succeed, and often we do more of a favor to the entrepreneur by turning him or her down than by approving a loan. Yet all the time we spend in working with those entrepreneurs cannot be charged off against our training and technical assistance grant unless they actually become a borrower.

There is a 10-percent amount that you can charge off against your grant. With $312,000, that is $31,000 of our total grant that we can charge off to all these individuals that don't actually become borrowers. That is inadequate. We suggest that the work that we do with folks who do not become borrowers is very important work and should be eligible for use under the T/TA grant that we receive.

There is some concern that intermediaries will use up all their training money on the front end and not have any money left over to service these borrowers once they do become borrowers. Please bear in mind that it is in our self-interest to work with borrowers throughout their loan and that in order to do that, we reserve certain funds so that we have dollars available to work with them. We don't want those loans to go bad. We want to pay back our loans to the SBA. Therefore we reserve T/TA funds for that purpose.

We think the T/TA issue is a critical one, very important to the success of the program; and we encourage the committee to look at expanding the use of those funds for front-end work with folks who don't become borrowers.

The cost of funds is not a major problem. We are paying 3.75 percent on the dollars we received under our second-year loan, 5.5 percent on our first year. We do not feel this cost is excessive; however, we think that it might be better to have a uniform rate such as the one used by the Farmers Home Administration in their program, which is a flat 1 percent regardless of which year of the program you are participating in. It might be simpler to have one uniform rate rather than a different rate for each year you get a loan for the program.

The administrative cost for operating this program is supposed to come from the interest spread between the rate that we pay the SBA and the rate that we charge our borrowers. That is the general concept of the program.

However, the utilization of those dollars for administrative purposes is very difficult to obtain. We have to get prior approval from the SBA to draw down any of the interest earnings that we generate from the operation of this program. We feel that that should be an automatic situation where, if the interest is generated, it can be used for administrative purposes.

After all, the SBA does not preapprove each of the loans we make. They give us authority to make loans and look at our ability to run the program, and they feel that we can do that. Just like they let us make the loans without their preapproval, they should also allow us to use the interest earnings that we generate to cover the administrative cost of the funds; and requiring a preapproval process is simply too cumbersome and makes it too difficult to access those dollars.

We support the idea of increasing the availability of the program and eliminating the set number of intermediaries that the program presently authorizes. The dollar amount that is suggested, however, going to a $5 million per State limitation is probably too small. In larger States, such as Florida, we feel that $5 million simply will not serve the needs of the small business community.

If we are already using $800,000 just in the northwest corner of the State, you can imagine what the demand would be when south Florida starts accessing this program. Presently there are no Microloan Programs operating in Miami, in Orlando, in Tampa and Jacksonville. So, all the major population centers are unserved; and once programs get started in those areas, we feel the $5 million cap will become inadequate. We would like to encourage the committee to look at a larger cap per State.

The national increase in the number of intermediaries from 110 to 200 is an excellent idea. I can't tell you how many calls I get from folks in south Florida wanting to access the Microloan Program and not understanding why I can't make them a loan from Pensacola. So, the demand is there throughout Florida and throughout the country.

The experiment into guaranty lending, I think is really a flawed idea. I do not believe that the banks are going to be interested in participating in making loans to nonprofit intermediaries so that we can make loans to businesses which they are not really interested in making loans to. The reason we have the Microloan Program is that these loans are too small for banks to be interested in them and their creditworthiness is too limited for them to be interested.

Banks generally don't loan to nonprofit corporations either. I think that when we try to seek banks to make loans to us rather than getting our funding directly from the SBA, we will find that the banks have limited interest in participating in this program.

First, there is the cost to them in operating the program. The SBA is asking them to take over most of the administrative burden of running this program, and what will banks be paid? The 5-year T-Bill rate. I don't think that is an adequate return to the banks, and once they look at that, they will say, thanks, but we are not interested.

Additionally, what are the CRA benefits to banks for participating in this program? Is there some special CRA credit that they will receive? If there is not, they are not going to be very interested in participating in this program.

I have found that the way the program is structured now with intermediaries borrowing directly from the SBA has been extremely workable. This program is not broken, and I don't see a need to fix it by going to a guaranty-type program.

Another issue has to do with availability of community development block grant funds for matching purposes. The program now authorizes us to use CDBG dollars for matching funds. I do want the committee to be aware that this type of funding is extremely political on a local basis, and often it is difficult, if not impossible, for us to access those funds so the availability of CDBG for a match is not a cure-all. The concern I expressed earlier about using nonborrowed funds is still a very real concern to us.

In closing, I think the SBA is doing an outstanding job of running this program. I have 25 years of experience in working with Federal economic development programs. I have been involved from the early days of OEO with the Community Development Corporations, and I can frankly say I have not seen a program with a lighter paperwork burden, with a smoother operation than the SBA Program.

We run our program on a local level. We make our loans, we provide our training and technical assistance. When our funds run low, SBA sends more. The program is really just that simple.

The reporting is relatively simple, the forms are easy to utilize, and I commend the SBA for the smoothness with which this program is operating. We are delighted with it, and it is for that reason that we don't feel that the program needs any major redirections at this point.

Thank you for the opportunity to speak, and I would be happy to answer any questions that you have.

[Mr. Horvath's statement may be found in the appendix.]

Chairman LaFalce. I thank all the members of the panel for their presentations. We do have a difficulty, of course, and that is we have very finite financial resources, and there are countless excellent programs competing for a much smaller dollar amount that can go around. That is one of the difficulties.

Your program is a pilot program, and it is still a pilot program. I think it is clearly successful if you don't want to consider the cost of the program. As you consider the cost of the program, then you might weigh its success against the success of other programs to see where you are going to get the biggest bang for your buck.

We have a high subsidy rate in this program, do we not? I believe it is about 12 percent and that doesn't include the counseling grants. If 200 anticipated intermediaries participated in this program, received $1 million in loan capital and annual counseling grants, the annual cost to the Federal Government of this program would be $64 million per year. This would support loan capital of $200 million.

But I am told that if we would take that $64 million and apply it to the 7(a) guaranty program, it would support almost $2.5 billion in 7(a) guarantees. So, the question is, why should we continue to increase this pilot program when we could use this money elsewhere supporting almost $2.5 billion in 7(a) guarantees?

I will ask you to comment.

Mr. HORVATH. I would like to take a stab at that one.

I think you need to look at the market. The 7(a) Program generally deals in much larger loans, in the $100,000-dollars-plus range. They are of the size that interests banks in providing an SBA guarantee because there is enough income return to them. The microloans are $25,000 and under. We are dealing with a totally different market where the banks are not interested in providing that type of financing. Yet if you look at the job creation, most of the jobs in this country are with businesses that have five and fewer employees. They are the microbusinesses.

So if we are trying to create jobs in this country to deal with crime and all the other problems we need to look toward microbusinesses. You have a better impact from a job creation standpoint by dealing with the microentrepreneur, which is going to create more jobs, that is where the jobs are, than you would with the 7(a) Program.

Chairman LAFALCE. Should we reduce the 7(a) Program in order to put more money into this Microloan Program?

Mr. HORVATH. My answer obviously is going to be slanted toward the Microloan Program, because that is where our interests lie.

Chairman LAFALCE. My point is, what is the balance that you strike?

Mr. HORVATH. I think you need more funding——

Chairman LAFALCE. You favor going up to 200, right?

Mr. HORVATH. The number of intermediaries, yes. One hundred and ten is the maximum now.

Chairman LAFALCE. They didn't make that recommendation in a vacuum. They made the recommendation to go to 200 along with some other changes. The SBA that you have praised has made six legislative recommendations, most of which you have rejected.

In other words, I don't know that they are going to be able to go to 200 without the accompanying legislative recommendations. If we don't accept their legislative recommendations, I am wondering if it is going to be possible to go to 200 intermediaries.

Also, you oppose the $5 million limitation for a State, but right now it is $2.5 million per State, isn't it?

Mr. HORVATH. Right.

Chairman LAFALCE. You are opposing the doubling of it because you want the tripling of it?

Mr. FREEMAN. As a banker, I certainly would not recommend reducing the 7(a) Program. We utilize the 7(a) Program, the 504 Program, all the programs with SBA, but there is certainly room for the Microloan Program. Probably the cap that you have mentioned may be sufficient, but the example that I gave of a young man whose company had sent 150 employees to Bulgaria would not have an opportunity under 7(A) to start a business, and create—actually retain if you look at it that way, the 25 jobs that he has retained in our community.

I think the Microloan Program is certainly a different program from 7(A), or any other SBA Program that we have, in trying to make comparison of it. I certainly support——

Mr. O'REILLY. Mr. Chairman, I don't think you can compare the 7(A) and the Microloan Program in any way. The Microloan Program finds itself in a marketplace that the banks do not service and, frankly, neither does SBA. As the notion of small business rose to $6 million net worth or less, further and further, does the SBA and the Federal Government——

Chairman LAFALCE. Your moms-and-pops, I understand.

Mr. O'REILLY. The Main Street shop and where are the roots of what we want to generate. Seventy percent of the clients that we service are on some kind of subsidized living standard. I don't have the numbers, but these things need to be taken into consideration also.

Chairman LAFALCE. Let's go down some of the recommendations of the SBA.

They have said, let's test capital funding to intermediaries on a bank-guaranteed basis, and 20 pilot intermediary funding—10 would be in rural and 10 in urban. This wouldn't preclude—this wouldn't be a substitute. This would be another tool.

Do you think we should go along with their recommendation to establish 20 pilot intermediary funding programs using a guarantee? See how it works?

Mr. O'REILLY. As you said, we are in a pilot program now, and I think that SBA has maintained a good pilot posture because the intermediaries are doing things very differently. The information that is coming back—and this is a reflection—these proposals are a reflection of those types of things. So, I think that, yes, a pilot program along these lines in order to tap into the vast resources of the private sector makes sense in order to provide leverage.

Chairman LAFALCE. So you wouldn't oppose trying this guaranty program out?

Mr. FREEMAN. Mr. Chairman, if the program could be designed so that there would be a motive for the banks. If there is some credit given to the Community Reinvestment Act, which we are all very conscious of as bankers, or if there is some assurance that the creation of jobs would be in the given area of the guarantee, I think there would have to be some type of motive for the banks to be involved in it.

Chairman LAFALCE. SBA has also recommended that we include for-profit businesses to participate in this, not exclude not-for-profit. You are working and working well, but they are saying, let's try for-profits also—insurance companies, regulated lenders, pension funds—so they could be intermediaries. Right now, you have got it all to yourself.

Would you oppose opening it up to those for-profit businesses who want to participate in this?

Ms. PRINSTER. My understanding is that the participating lenders would be making loans to the nonprofit intermediaries. Would the participating lenders be making direct loans to borrowers too?

Chairman LAFALCE. They could, yes.

Mr. O'REILLY. I don't see what the problem would be with that as a pilot program. If I was going to jump to a conclusion, I think, that you would probably have limited participation given the limited profitability in doing it. Not-for-profits work on a mission that is not profit-driven.

Chairman LAFALCE. They call for eliminating the subsidy on loan subsidies on loan capital if used to fund an average portfolio over $7,500. Right now we subsidize it at 1.25 Treasury points below Treasury cost of money.

Mr. O'REILLY. What happens when you do that, you are driving the programs into very, very small lending and you are increasing the risk. If that is where you want the program to reside, you are going to have to expect that that 15 percent reserve is going to be challenged.

Chairman LAFALCE. It is a tradeoff between subsidy and risk?

Mr. O'REILLY. That is right.

Chairman LAFALCE. Thank you. No further questions.

Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

I want to thank all of you for your testimony. I have a great interest in this program. It was one of the first pieces of legislation that I proposed as a Member of Congress was the Microloan Program. So, I have had great interest in its success, and I am heartened to hear some of the personal testimony of what the success has been in your communities.

I would like to, first of all, pose in the form of a question and a comment a response to the point of the Chairman with respect to whether or not we should be continuing or expanding this program, and its relationship to 7(A). I think that the point that you have made about the uniqueness of this program with respect to the market, with respect to the smallness of the businesses that you are dealing with, is very well taken; and I am glad to hear that response.

But I would like to ask if you or, to your knowledge, anyone has analyzed this program with respect to the return on investment the taxpayers receive in benefits, including the savings that we will have in unemployment benefits, the savings that we will achieve in reducing demands on a variety of social programs, increasing the tax base to local communities, increasing the amount of opportunity for other businesses, individuals and families and communities. Has anyone analyzed this program and its success from the perspective of that broader look in terms of the return coming to taxpayers and to society?

Ms. PRINSTER. We have not done that. It sounds like a good topic for a dissertation for somebody.

A comment I would like to make—and I think that I have a sense that you are alluding to this—is, unlike the 7(a) Program, the emphasis on technical assistance in the Microloan Program is to a very large extent almost a job training program because many times we are working with socially disadvantaged borrowers.

I think that there needs to be some view of relating it to job training efforts, because many of these people are really not cut out to work in corporate situations for other people and they do much better working for themselves. To the extent that they have not had the Masters in Business Administration and the formal education, they have not been raised in families that have been successful entrepreneurs, but often have been raised in families who have been on welfare or minimum wage workers, they do not have the role models. So, they do need some training and support to be able to succeed as business owners.

They are trying to make a change in direction in terms of their personal history, and that is a large component of what we do that you do not see in the 7(a) Programs where you have more sophisticated borrowers who don't need that kind of support.

So I think your question is well taken in that some of that kind of analysis should be done to really broaden the vision of the niche that we are working in, as compared to strictly business access to capital for small business. There is a large training component in what we do.

Mr. ANDREWS. We are engaged in discussions of welfare reform in this Congress, and many of us believe that the best welfare program is a job; and anything that we can do to create those opportunities I think needs to be put in that context.

I appreciate your response. Your response brings to mind an initiative by Secretary Reich in the Department of Labor in his reemployment initiatives to provide opportunities for individuals on unemployment to be able to take some of their benefits as a whole dollar amount so that they might use those dollars to create opportunities, to invest in a business.

Can you see a way—first of all, do you think that is a good idea; and second, do you see a way in which this program might dovetail into that reform initiative by the Secretary of Labor?

Ms. PRINSTER. That is a good alternative. It is a high-risk situation for that individual. They could lose it all. That person would have to be very committed and sure of him or herself that this alternative was going to be a good investment of their benefits into this business.

In terms of our dovetailing into that program, I think it is a good possibility. Some microenterprise programs work more with welfare recipient and low-dollar amount borrowers than others. On the other hand, some programs have more of an emphasis on what I would call prebankable borrowers that eventually will qualify for a 7(A) loan, for example.

So there is a broad spectrum of microenterprise goals, but I think to have some flexibility in the program where you can dovetail with a "poverty alleviation" kind of a mission could be very effective. It would be a good utilization of resources to provide people with choices that meet their abilities and interests so that they can, as was said, be creative and employ their talents in the most effective way.

Mr. O'REILLY. In many aspects of the training programs there needs to be an end game, and sometimes that is self-employment. Self-employment training, after skills training and those kinds of things are very valuable.

As a lending program, however, you come in and put the access to the economy, if you will, by lending for tools of the trade and setting up a small contractor or those kinds of things. So, when you compartmentalize it all and then at the end you provide capital in the form of loans, you have brought that individual to a place of access to the economy itself. We do that locally to the greatest extent we can in terms of tying those types of programs together; and we see that it is valuable.

Ms. PRINSTER. One other part of that is if a person—let's say, a woman—the full amount of her benefits available, I would expect that to be invested as equity in a small business. There is still the question of job training, how to run a small business, and where would she go for that kind of training.

There may be a need for leveraging with a small loan, which I think is a good idea, if it is needed, but also having the access to the training that is going to enable her to get a good return on that investment, which is a sustainable job for herself. This element of training an technical assistance is where you get the cost of the program, through the technical assistance, which has both a job training aspect as well as a lending aspect.

Mr. O'REILLY. If you dovetail it the other way, you are making the loan and the job training, it can be loan servicing and/or collections to protect the principal amount of that loan.

Mr. ANDREWS. Mr. Chairman, I want to thank you for holding this hearing; and I want to thank our panelists for participating.

Let me go on record and say that I believe very strongly that we need to expand this program. I think that the track record that we have, the clear demonstration of success in meeting this very unique niche in the market, is outstanding. I think we need to expand and develop aggressively, and I also believe that we need to look to the success of this program and the track record that has been accumulated in the real world when we look at welfare reform, as well as when we look at the reforms that are being discussed in the Department of Labor with respect to reemployment reform programs.

If we are going to have this lump sum opportunity for people to receive their lump sum unemployment benefits so that they can create a job that—using your experience and making certain that the resources and tools are available to them that are available to those who receive microloans through your program is something we need to pay close attention to.

We need to make sure that the right hand knows what the left hand is doing and that the right hand learns what the left hand is doing through programs such as this.

I thank our panelists and I thank you, Mr. Chairman.

Chairman LAFALCE. Thank you.

Mrs. Meyers.

Mrs. MEYERS. Ms. Prinster, what is your loss rate on the loans that you make? You have been in business for 10 years, over the 10-year period.

Ms. PRINSTER. Our activity has increased over the 10 years. The last 3 or 4 years has seen an increase in our activity. In terms of our SBA loan portfolio, our default rate right now is 5 to 6 percent and we have had no losses.

I would estimate that over the 10-year period, my gut feel would be that our loss rate is higher, at times up to 20 percent. But I need to say that in my own experience, working with these kinds of small businesses for 7 years, when our organization was first involved in microloan lending, we actually had a philosophy or policy that we did not do technical assistance. However, I have seen a remarkable positive change in our relationship with borrowers and our portfolio quality since we have been involved in providing technical assistance to our borrowers.

So I am very encouraged that the emphasis on technical assistance for these borrowers will make a big difference in safeguarding the portfolio and the investment in our loans. We have seen a tremendous improvement in the past few years, as we have done technical assistance, our loan losses have declined to 8 to 10 percent of our portfolio, which I believe is an excellent record, considering the high risk nature of our type of lending.

Mr. FREEMAN. Ours is less than 1 percent. We operate two other Government-related programs, one for Farmers Home, then a lending program of Farmers Home, and that loss rate is zero. We have been with that program for how many years—since 1989.

Mr. O'REILLY. Our overall loss rate is less than 3 percent. You break down by program, of course, in our 504 we have had no losses. In our CBDG and other areas, we have less than 2 percent. At one time, we had a default rate of over 90 days on our Peer Group Lending Program which is very small loans to individuals that come together to make—that rose to 17 percent in terms of past dues.

We have a policy of never forgiving a loan and we went in there with technical assistance and reorganized our program, taking in some real-world limitations, and that is now down to 7 percent, although that is a small part of our portfolio.

Mr. HORVATH. Our Florida-funded program has operated 12 years and done $4 million worth of loans. We have a 3 percent loss rate, that is actual dollars that we have lost following collection procedures.

On our Microloan Program, we have had three loans go into default. They are in collection presently. If we have no collection whatsoever on those loans based on the level of lending we have,, that would be a 4.2 percent loss rate. If we collect 50 percent, 2 percent would be our loss rate.

Mrs. MEYERS. Thank you all very much.

Maybe there is something that I don't understand here, but why wouldn't a bank get credit under the Community Reinvestment Act for a loan that was made in the community even if it was—they guarantee it—of course, it hasn't been guaranteed. Explain that to me.

Mr. FREEMAN. The standards for the Community Reinvestment Act have been varied with the regulators. Some regulators have taken the approach that a loan has to be made direct to the individual or to—it is low- to moderate-income and the measurement of this program as to whether it would be directed toward that might be a little difficult for a regulator to access. I am not saying that they wouldn't give us credit for it, they possibly would, but the evaluation of it by the regulators would be the only problem I could see.

Mrs. MEYERS. And you don't have to get the same kinds of information as to whether they are low- or moderate-income, so that it could be conveyed to the bank; or you feel like they would have to establish it themselves?

Mr. FREEMAN. The regulators use several different techniques of evaluating whether a bank is really doing their part in getting the information to the low- to moderate-income people. My bank had a committee of directors and we had neighborhood meetings, we went into different neighborhoods and probably got more credit for that than actually doing the lending, but making the information available to the people in those areas. So, the way the regulators will evaluate a bank——

Mrs. MEYERS. So it isn't actually—they don't say that they can't get CRA credit, it is just the way the regulators look at it?

Mr. FREEMAN. That is correct. That is changing. Regulators are very cooperative. If a bank is doing their job in attempting to make people aware of the programs that are available, I think banks get along very well with the regulators, and this would probably be a tool that they could use in saying that a bank is participating, that they are trying to make funds available to the low- to moderate-income people.

Mrs. MEYERS. Thank you.

Mr. HORVATH. Mrs. Meyers, if I may respond to that.

The new CRA rules that have been out for comment for some time look more to actual small business loans that a bank has made, loans to businesses in low-income areas and loans to minority businesses. A loan by a bank to an intermediary wouldn't qualify under either of those categories.

We are a nonprofit corporation. Unless a special niche is created under those CRA regulations to give the bank some substantial credit for participation in this program, I have a concern about the bank's willingness to participate. We have worked substantially with the banks over our 12-year history, and I have a fair idea of what they want to work on and what they don't.

Unless they are going to get CRA credit and they can show how they can make money on the loan, I think they would be reluctant to participate. I would love to see how this pilot effort would work out with them.

Mrs. MEYERS. You said, and I don't have your comments in front of me, that you think your matching money ought to be able to be borrowed money.

Mr. HORVATH. Yes.

Mrs. MEYERS. I don't know. I would have some concern about that just because oversight from this level is very difficult. Once a program begins to go bad—I mean, if there are problems out there, I think it is very hard to get Congress, this committee or Congress, to commit money to it again.

Do you think there is additional risk in doing that?

Mr. HORVATH. I don't see the risk. In fact, I see the risk as being lessened. If a group is able to borrow money from a State source, for example, that is another indicator of the creditworthiness of the group to then be able to borrow from this Microloan Program.

We are demonstrating our capacity at a State and at a Federal level and being able to leverage one program off of another. The problem is in finding sources of money that aren't borrowed. There are so few grant programs out there that trying to find those matching funds becomes very difficult if you can't use borrowed funds.

Mrs. MEYERS. Thank you very much, Mr. Chairman.

Chairman LAFALCE. Mr. Collins.

Mr. COLLINS. Mr. O'Reilly, in your operation there, you have $175,000 that you got from SBA. What is the size of your staff?

Mr. O'REILLY. On the microloan, I have one person. Our total staff is, in Savannah, is four professionals doing a variety of things, one on commission.

Mr. COLLINS. You mentioned that you have made 28 loans so far since November of 1992.

Mr. O'REILLY. Yes.

Mr. COLLINS. What has been your number of inquiries versus loans?

Mr. O'REILLY. You are looking at—we will get, going back in the track record, we are getting an average of 5 a day.

Mr. COLLINS. Five a day, 5 days a week?

Mr. O'REILLY. Yes, sir.

Mr. COLLINS. That would almost make it close to the same as his; about 51 then?

Mr. O'REILLY. Yes.

Mr. COLLINS. You mentioned, too, that you made 28 loans and you created 28 jobs. Were these one-man operations? I reckon they would have to be.

Mr. O'REILLY. Yes.

Mr. COLLINS. How do you calculate the average cost of a loan at $5,103—how do you come to that?

Mr. O'REILLY. That was the current balance divided by the number of loans outstanding, then what we have received in grant money divided by the number of loans outstanding.

Mr. COLLINS. Mr. Horvath, the gentleman from Pensacola.

Mr. HORVATH. Yes.

Mr. COLLINS. You have 48 microloans and 129 jobs. You have four full-time staff just dealing with microloans?

Mr. HORVATH. That is correct, sir.

Mr. COLLINS. You have not quite $800,000 in loans that are outstanding?

Mr. HORVATH. Yes.

Mr. COLLINS. At a 7 percent spread, $56,000 would be the average annual income, four staff people, $56,000, they too are eligible for subsidies from the Government, too. Their income is too low, or else you are going on a negative operating cost at the end of the year. Which one will it be?

Mr. HORVATH. Most of the salary for those individuals comes from the training and technical assistance grants; that provides the assistance to the individuals in becoming borrowers. I would say 50 to 60 percent of our T/TA funds are used pre-loan closing, and 40 to 50 percent are post-loan closing, so most of the salaries for those individuals are in qualifying them for the loan that they have received from the program.

Mr. COLLINS. That is about $35,000 a year in addition to the $56,000?

Mr. HORVATH. Yes.

Mr. COLLINS. You have approximately $80,000 to $85,000 a year to operate your program?

Mr. HORVATH. The $312,000 is an annual grant. If half of that is available for preloan, you have $155,000, plus $56,000 in interest revenue, so you have a fair enough amount to cover the cost of providing the training and technical assistance and running the program.

Mr. COLLINS. What was your bottom line of operation for last year?

Mr. HORVATH. The bottom line? My bottom line is that I had sufficient income to cover the cost of operating the program, and we did.

Mr. COLLINS. What kind of proforma do you have over a 5-year period based on the numbers you are dealing with today versus the income you have and the cost of operation, and your 7 percent spread in the T/TA money.

Mr. HORVATH. We have been growing steadily as a program. We have had five employees for most of the past 12 years. With the addition of the Microloan Program and some of our housing activity we now have 11 employees. We envision a continuing increase in the size of our staff. I don't have a proforma with me that I could share with you, but we are looking at continued growth to meet the demand that we have in our community.

Mr. COLLINS. In fact if you don't have continued growth, you will have a negative balance at the end of the year?

Mr. HORVATH. I believe so. As an operator of a community development corporation, we find that unless the program continues to grow, we are going to go away.

Mr. COLLINS. That could lead to part of your reason for supporting additional funds or doubling the size of the grant program or the loan program?

Mr. HORVATH. Yes, sir.

Mr. COLLINS. You mentioned that your default rate was actually, I believe you said 4.2 percent, or something in that area, but based on the portfolio that you supplied us, if you take just a default based on total dollars, it is actually 5 percent. If you take the default and delinquent, it runs about 10 percent; is that true?

Mr. HORVATH. If you add in the delinquency, yes. That is precollection also. They three loans that are in default right now are at the attorneys for collection. That doesn't include recovery at this point. So, the 4.2 assumed that our total balance, I believe it was $33,649 in loan balances that are outstanding. I think also the chart is misleading because it doesn't show the balance of the loan at the time it went into default, but rather the beginning loan balance. There were some payments before they went into default. So, the actual loan balance that is in default is $33,649, which gives us the 4.2 percent figure.

Mr. COLLINS. The total loans were $35,000. You actually collected about $2,000?

Mr. HORVATH. Before those loans went bad, yes.

Mr. COLLINS. What was your bottom line, Mr. O'Reilly?

Mr. O'REILLY. In terms of the Microloan Program——

Mr. COLLINS. How much money did you lose last year?

Mr. O'REILLY. On the Microloan Program, it was a negative of about $4,000. But we are—we just keep out a principal balance, just enough to cover our monthly payment. The long haul is that we will amortize it out and the program will be done unless we go out into the community and get nonborrowed money.

Mr. COLLINS. Getting down to the bottom line, we have created a small business through each of you, all through loans from SBA. We created a small lending institution through each of you all in your program through funds from Small Business; that is what we have done with this program and other programs?

Mr. O'REILLY. Yes.

In terms—we use our 504 money to put in, the money that we make, we use it to meet our matching requirements.

Mr. COLLINS. If you can increase your number of jobs to 29, that includes your staff in there, too.

Mr. Freeman, I see you are president of a community bank in McAlester, Oklahoma?

Mr. FREEMAN. That is correct.

Mr. COLLINS. There is nothing better than a community bank system, especially for rural America.

Mr. FREEMAN. Thank you, sir.

Mr. COLLINS. Do you operate a separate office for your microloans?

Mr. FREEMAN. No, sir. The Rural Enterprises has several programs and several divisions that we operate and microloan is just a part of that.

Mr. COLLINS. Do you do that in your bank or in a separate office?

Mr. FREEMAN. No, sir. It is through the Rural Enterprises office in Durant, Oklahoma.

Mr. COLLINS. Evidently your banking experience has contributed, though, to your 1 percent loss ratio.

Mr. FREEMAN. That and our other board members who come from a diversified business background, and our loans are very carefully screened by that board.

Mr. COLLINS. A 7 percent spread is a little better than banks if you just had enough of these dollars to do that, wouldn't you?

Mr. FREEMAN. That is a pretty good spread yes, sir.

Mr. COLLINS. Could you actually, if the legislation legally was in place, operate such a Microloan Program out of your bank?

Mr. FREEMAN. Probably so, Mr. Collins, but the program is a community-based program and my bank serves the community, our home office and the three branches that we operate in other Oklahoma communities. Rural Enterprises is able to serve a broader base than we would be able to as a community-based operation.

Mr. COLLINS. In reality, though, you could incorporate the same type program into a banking operation, and by doing so, you could actually expand the Microloan Program and put it into facilities and operations that actually do a job like you do who have boards of directors who oversee the loan applications and have a much less loss ratio?

Mr. FREEMAN. I suppose that might be true, yes, sir.

Mr. COLLINS. Mr. O'Reilly, you have a comment here, 57 percent of all loans went to women-owned businesses or would-be owners. That would-be women or would-be women owners?

Mr. O'REILLY. Some own the businesses already.

Mr. COLLINS. OK, and 64 percent minorities.

I am assuming that these 57 is the women, and the additional 7 are minorities, or are any part of the women minorities?

Mr. O'REILLY. It is just all the minorities; some happen to be women.

Mr. COLLINS. Other than just—Mr. Chairman, other than just saying I hope you all collect your money because you are going to need it to operate to keep going, I appreciate the comments and the testimony.

Thanks for the time, Mr. Chairman.

Chairman LAFALCE. Thank you very much, Mr. Collins.

Ms. Prinster, Ms. Harlin, gentlemen, thank you very much for your testimony.

The committee will take a 5-minute recess. We will reconvene at 11:20 to hear panel number two on the 503 debenture prepayment issue.

[Recess.]

Chairman LAFALCE. The committee hearing will resume.

Next we have Doris Johnson, president, Vancouver Bolt and Supply, Inc., Vancouver, Washington; Marty Brooker, president, AIR-MACH, Inc., Des Moines, Iowa; and Ed Nicholas, president, Timberlyne Cabinet Co., Angier, North Carolina.

Ms. Johnson, you may proceed.

TESTIMONY OF DORIS M. JOHNSON, PRESIDENT, VANCOUVER BOLT AND SUPPLY, INCORPORATED, VANCOUVER, WASHINGTON

Ms. JOHNSON. Thank you, Mr. Chairman and members of the House Committee on Small Business.

My name is Doris M. Johnson. I am president of an Industrial Distribution business, Vancouver Bolt & Supply of Vancouver, Washington.

I sincerely appreciate the opportunity to speak on behalf and in favor of H.R. 4298, the SBA 503 legislation. I have submitted my written testimony and I would like to summarize and address any specific questions you may have regarding this issue.

As you know, there are 3,600 remaining small businesses, representing nearly 200,000 jobs affected by this horrendous SBA 503 prepayment penalty. I have organized and been in contact with hundreds of those hurt by this issue.

In November, I surveyed 2,000 of these business owners. It was determined that $30 million would be adequate for the prepayment penalty to meet the needs of those who need to expand their business to provide more jobs, settle estates, or sell their business or property.

The SBA503 Coalition urges your support of the authorization and appropriation measures that would allow all 503 borrowers to prepay without regard to interest rates.

Of the hundreds of borrowers that I have been in contact with, it is universal that they were not aware of the prepayment penalty buried in the 6- to 10-inch documents or the consequences involved. Even in trying to understand, after the fact, many legal specialists fail to understand the 77-word sentence detailing the penalties involved.

None of us would ever have agreed to limit our business growth so that we could never expand, never change ownership in planning retirement, nor settle our estate due to death or failed marriages, let alone, sell the business.

As the rest of the Nation has had the opportunity to restructure their debt, we have been forced to pay interest rates as high as 15.7 percent and penalties of up to 64 percent. We simply cannot continue to stay competitive.

The President of the Oregon Bankers Association, Mr. Frank Brauner has stated publicly that if a banker had made such a contract that banker would be in jail.

I first discovered this onerous penalty when I needed to expand our building. We needed to add space to comply with the Fastener Quality Act recently passed by Congress. This act does not allow us as distributors to commingle or mix bolts from more than two lots of steel. A normal shipment of the same size bolt may come in from 10 or more different lots.

Our warehouse has over 11 million parts that need to be separated. Without this expansion, we could be forced out of business, and according to our survey there are at least 31 additional businesses facing bankruptcy, 650 jobs. This is an issue of survival for many of us.

We started with no customers and no inventory. Now we 30 families in a community, already hard hit by timber cutbacks. Our company is an important part of our community. We are good citizens who support our community, schools, and provide a strong tax base.

Recently, when my husband was critically ill, we were advised by our attorney that if he should die, we would owe the SBA and FFB $57,000 in penalties on a balance of $154,000. Thank God he is still alive. We now owe more than the $177,000 we borrowed 10 years ago, even though we have never missed a payment, and have paid over $175,000 in interest.

I asked at our closing if we could prepay our loan. The answer was yes. It is important to note that 99.9 percent of those that I contacted were not aware of the penalty. In fact, some borrowers have in writing from the development companies that there is no prepayment penalty.

We are not asking for forgiveness of debt, only the ability to be treated the same as a commercial lending institution. We do not feel there will be a loss to the Government, instead there will be a gain by the 2,500 jobs that could be added through the relief of these prepayment penalties.

Similar legislation was passed by Congress in 1988 and vetoed by President Reagan on the advise of the Treasury. The Treasury no longer opposes this legislation.

Similar legislative solutions have been enacted for prepayment penalties for loans made by the Rural Electrification Administration. Recently, the Veterans Home Loan holders were allowed to refinance to lower interest rates. The SBA 503 loans are the only remaining Federal loan program that requires corrective legislation.

I would like to specifically address the proposal by the certified development companies who wish to impose a flat 7 percent prepayment penalty. They have already been overpaid for the services provided. This proposal represents an unwarranted and unearned "rake off" of funds from the 503 borrower. Isn't $62 million income enough for them?

President Clinton and SBA Director Erskine Bowles have given us their strong support and included the $30 million in the SBA budget.

After fighting this issue for 2½ years, I am tired and my business is suffering. However, I have continued to lead the coalition after hearing of the many horror stories from businesses trapped by the prepayment penalty. This is an unfair issue that cannot be ignored any longer.

I only wish you had time to listen to the many examples of businesses unfairly affected by this penalty and the devastation it has caused. This issue affects every type of business from every State in the Union.

I am here to plead for your support to stop the insanity of this situation. I am sure that Congress did not intend to put such barriers before small business.

We are the group that provide 85 percent of employment for our Nation and we just want to continue to do what we do best, expanding and providing jobs. The timing of prepayment is critical, please don't tie our hands any longer, just let us pay our money back and go on with our lives.

Thank you, Mr. Chairman, for the opportunity to appear before the committee, and I will be happy to answer any questions that I can.

Chairman LaFalce. I thank you very much.

We will hold off on questions until we hear from the other witnesses.

[Ms. Johnson's statement may be found in the appendix.]

TESTIMONY OF MARTY BROOKER, PRESIDENT, AIR-MACH, INCORPORATED, DES MOINES, IOWA

Mr. Brooker. I am Marty Brooker, president of AIR-MACH, Inc., Des Moines, Iowa. I appreciate the opportunity to appear before the committee to express my views on proposed legislation regarding the Section 503 loan program. I would like to testify in support of the legislation that would permit prepayment of SBA's Section 503 loans without penalty.

The company I now own, AIR-MACH, Incorporated, was founded in 1933. I started working for the company in 1972, less than a year out of high school. I purchased the business with a loan guaranteed by the SBA in September of 1980. In 1985, at the end of a 5-year lease we had outgrown the company's original location, and we needed a new facility.

My banker suggested I talk to the Des Moines Corporation for Economic Development. We built a new building that was financed by the SBA 503 loan program. My bank supplied 50 percent of the money and received a first mortgage on the property. The Des Moines Corporation for Economic Development supplied 40 percent of the money which was guaranteed by the SBA through 503 loan program. I supplied 10 percent as a down payment.

The SBA had a longer-term loan than what I could get through our normal bank, it had a reasonable interest rate, and by coming up with only 10 percent down, it sounded like a good deal at the time.

In August 1992, after interest rates had dropped, I decided to refinance the first mortgage on the real estate, the SBA 503 loan and the original loan I had used to purchase the building. I figured my loan payments were over $6,000 a month on those three loans, and by refinancing the whole thing, I felt I could drop my payments $2,000 to $3,000 a month, I could add another line and I could add more employees.

When I called to get a payoff amount on the SBA 503 loan, that was when I first heard about the huge prepayment penalties associated with this loan. It was not brought up at the time of closing. It was explained to me that by signing these loan documents that I was responsible for the total cost of interest for the life of the loan, even if I paid it off early, which was what I wanted to do. They calculated at that time, which was in 1992, a prepayment penalty of $19,900 on a loan balance of $87,800. I had originally borrowed $103,000 and they wanted $108,000 to pay off the loan. I was shocked. I had no idea this was part of the loan.

I waited another couple of years and I decided to check on refinancing it again. I made $1,100 a month payments for 14 months, and then in November 1993, I found that because interest rates were lower than in 1992, the prepayment penalty had grown to $24,700 instead of $19,000, and I now owed $6,000 more than I borrowed, or more money after making 14 payments of $1,100 a month. Again, I was unable to refinance because of the prepayment penalty involved.

As you know, the 504 loan program has replaced the 503 loan program. The 504 loan program does have a prepayment penalty but it is a thousand times more fair than the one associated with the 503 Program.

I am asking you to correct an error that is keeping my business and many more like it from growing and from hiring new employees. Nowhere in the private market is there any kind of prepayment penalty like this.

I have been told that the major hurdle in getting this legislation passed is in appropriating money with the budget the way it is. I might suggest that if the budget deficit is the only consideration here, that maybe we should add this type of prepayment penalty to FHA- and VA-guaranteed home loans. You can imagine what kind of response you would get from people if they were unable to refinance their home, if somebody died or if they wanted to move to a larger home or wanted refinance it. I am sure the American people would think this was unfair, and I am sure you would also, but this is what we are up against. That is how we feel.

The point I would really like to make is I have spent my entire adult life with this company, and it is hard enough to run a small business without having these kinds of restrictions. I would just like to ask for your support in giving us a level playing field with the other small businesses that we compete against and to get rid of this prepayment penalty.

Thank you for your time and your consideration.

Chairman LaFalce. Thank you very much Mr. Brooker.

[Mr. Brooker's statement may be found in the appendix.]

TESTIMONY OF ED NICHOLAS, PRESIDENT, TIMBERLYNE CABINET COMPANY, ANGIER, NORTH CAROLINA

Chairman LaFalce. Next, we have Mr. Ed Nicholas of Timberlyne Cabinet Co., North Carolina.

Mr. Nicholas. Thank you for the opportunity to present my comments. I am not going to read from my prepared testimony. Rather I will simply summarize a couple of years worth of hard work by a whole lot of folks, small business people. We all share similar horror stories; I don't have to beat this dead horse. Fortunately, you as well as everybody else it seems, supports a resolution of the problem.

I am thankful for SBA loans. I have three. I have a 503, a 504 and a 7(A), so I can, through my personal experience, understand the contrasting differences between the three. Needless to say, 503 is the least preferred.

The prepayment penalty is a problem for me now. It does in fact threaten the continued life of my business. I have to refinance it. I wouldn't have this business without the SBA loan program, no question about that, but I want it to continue.

One thing that concerns me the most is that with everybody's support of this resolution to the problem, everybody seems to think that it is going to cost the Government money to solve this problem.

I guess in my simple way of thinking, what will I cost the Government if my business fails? The economy will lose 100 jobs and the Federal Financing Bank will lose the $300,000 worth of interest payments I would have made over the next 17 years.

Again, to my crude way of thinking, it would seem that it would be in the best interests of everybody concerned that if my business continued I would save rather than cost the Government money.

Regarding the President's proposal, without question we support most of the elements, with two exceptions. One is the cutoff at 12 percent—that is, the interest rate charged to borrowers. That really is not a necessary provision and we would like to see that removed.

Second, the CDC prepayment fee of 7 percent they want to impose—just as a footnote, I had an early morning breakfast with Erskine Bowles and he stated quite clearly that they will not support that, just for your advance information.

Beyond that, I will simply say that I have done a lot of hard things in my life. The hardest thing I have had to do is to try to keep this business running. The SBA gave birth to my business. Good gracious, please don't allow the prepayment penalty to kill that which you created.

Thank you very much, Mr. Chairman.

[Mr. Nicholas' statement may be found in the appendix.]

Chairman LaFalce. Thank you very much.

The difficulty is that we must come up with money in order to deal with this problem, and I don't have the exact figure in my head—my counsel might—but if we were to fix the problem all at once, it would cost over $100 million. We don't have that. So, we are budgeting approximately $30 million, at least for this year—that is not to say we wouldn't be able to get more the following year, the following year, et cetera.

The thing is what approach do we take now? You could take different approaches. Some would say there ought to be no prepayment penalty whatsoever for anybody. There aren't the dollars to do that.

Others say, well, put it out for bid and see how many would prepay at what price, and auction it off.

Others would say, well, establish a national rate for all, et cetera, et cetera. If you had your druthers, it would be eliminate the prepayment penalty totally. I understand that.

But if you were in our shoes and you had to stretch the Federal dollars, you could only deal with maybe about a third of the problem. How would you deal with a third of the problem?

Mr. NICHOLAS. First of all, we don't object to a prepayment penalty. We understand the reality of your situation and the reality of ours. The 504 prepayment penalty schedule is very acceptable and we think reasonable for all involved.

Ms. JOHNSON. As the interest rates continue to climb, the latest figure that I have is two things, that the total cost if every single individual, every single borrower prepaid would be $80 million.

The second recommendation that I have is that I think that your earlier—in many other committees, you are considering increasing and adding to the programs for the SBA. These 503 borrowers are established businesses with jobs. As I said in my statement, we are representing nearly 200,000 jobs, and why put those in jeopardy and go out and find those entrepreneurs who don't know how to run a business? We have successfully run a business for 15 years. We have 100 employees.

I think that is where some of the money ought to be considered, because this is something that has gone on far too long. They have all made plenty of money on it. The Government certainly, as I said in my statement, has been able to make a good profit off of every one of us.

There is one loan in Oregon—he borrowed $350,000. He needs new equipment. If he has to continue the 503 loan the way it is, he will pay them almost a million dollars. If he can't stop and get out of the 503 and take away the penalty, he is going to put away his whole company. I think that is something that needs to be considered.

Another very urgent one that I just ran into was in Milton-Freewater, Oregon, where the owner of the company died suddenly in November of this year. His widow now is faced with a $127,000 prepayment penalty. That little town needs that food processing company, and I think that is very, very important to think about. That is why I said I wish that—this thing has to be fixed.

My recommendation is, I don't disagree that perhaps it is more fair to take those that are hurt at 15 and so forth, first, but I think that you will need to add to that those people who need to expand to keep from going out of business and those people who need to settle estates. I think that is a very important issue that needs to be included in that.

Chairman LAFALCE. Ms. Johnson, what is your 503 interest rate right now?

Ms. JOHNSON. It is under 12 percent, so this bill will not help me.

Chairman LAFALCE. And yours, Mr. Brooker?

Mr. BROOKER. It is at 10.586.

Chairman LAFALCE. And yours, Mr. Nicholas?

Mr. NICHOLAS. Nine point one.

Chairman LAFALCE. Now if you were to refinance now, Ms. Johnson, Mr. Brooker, Mr. Nicholas, what do you think you would be able to refinance at?

Ms. JOHNSON. I don't know; 7.5.

Mr. NICHOLAS. Seven and a quarter.

Mr. BROOKER. Right in that range.

Chairman LAFALCE. Would that be a floating rate or a fixed rate?

Mr. NICHOLAS. It would float.

Ms. JOHNSON. The other issue that came up at the Senate hearing was the fact that how many people would refinance? Under the bill, you can refinance under 504. I don't feel that based on our experience from the 503 that we will have anything to do with 504 loans. I think you will not find a lot of people—there will be a few—there is a telephone company in New York who will need to refinance on the 504, but many of the companies that I have spoken to just want to get out of it.

Chairman LAFALCE. I would expect that they might feel that way, emotionally feeling that the 504 would ultimately be the same as the 503, but don't think that there are substantial differences between the 504 percentages and the 503——

Mr. NICHOLAS. Just as a clarification, what was suggested was if they roll it over into the 504 Program that they would essentially lose all they have invested in the 503 up to that point, they would be starting at year one, and I think that was the big objection. If it were rolled over and I have invested 8 years of payments in 503, if you were rolled over to 504 starting at year 8 that would be acceptable.

Ms. JOHNSON. Next week, I am 62 years old and if I got a penalty until I am 72, I hope and pray that I can make it to 72.

Chairman LAFALCE. I am going to ask my counsel to ask a few questions.

Mr. POWERS. Just to clarify, obviously, the interest rate slide, Ms. Johnson, every time you ask Treasury to do a computation, you are going to get a different number. Apparently SBA is now telling you $80 million. The last figure that we had when the computation was run last month was $98 million. Of course, it could change even more between now and the time of actual repayment, which would vary the cost even further. There is no way we can guard against that.

But using the $98 million prepayment calculation by the FFB and inserting the 504 prepayment penalty schedule, would result in actual penalties, if everybody prepaid using the $98 million calculation, of $7 to $8 million, which would leave us short roughly $90 million, or $9 to $10 million.

Just to clarify the NADCO proposal that you referred to Mr. Nicholas, this was not a penalty to go to the development companies. This was to be a substitute for the 504 prepayment substitute that the administration is proposing. So, what they are saying is if you paid in lieu of a 504 schedule, you ought to pay more than the $7 or $8 million which that formula would result in to the Treasury.

Their suggestion was that you take the $525 million outstanding principal, which resulted in a $98 million prepayment calculation, and instead multiply that $525 million by 7 percent, which would bring in more income, roughly $40 million, than you would get under the 504 schedule.

If you could then add to that the $30 million that has been requested in appropriations, you could take care of 70 percent of the amount of the problem.

Of course, if you could get a prepayment penalty of only $8 million, you would obviously rather have that than 1 of 15 or 20 or 30, but that doesn't provide any safeguard for the rest of the people.

To carry it even further, that is the only way that you could assure that we could provide some assistance to everybody in the first year, based on—the original calculation was if everybody had to pay a prepayment penalty of 13 percent, you take that yield, 13 percent of the outstanding principal, and add to that the $30 million that we have proposed for appropriation, you would come up with $97.5 million in prepayment penalties, or basically a wash.

You could say everybody could walk away this year at the interest rates that were in effect in April if they paid a 13 percent penalty based on the outstanding amount of the debenture at this point.

Of course, if interest rates have gone up, which they probably have a shave or two since then, then prepayment penalties would go down, so it could be reduced even further beyond 13 percent.

Would anybody care to comment on walking away from the issue once and for all for a 13 percent or less penalty versus trying to devise some type of an equitable arrangement, which obviously the Chairman is concerned with, as Ms. Johnson raised for hardship cases, those that can't get within the interest rate priority pecking order, if you will, that the administration has proposed.

Mr. NICHOLAS. Our assumption that 100 percent of the borrowers would refinance is incorrect. On our estimates, based on conversations with borrowers across the country, we project that a third perhaps would in fact refinance, and only a third.

Chairman LAFALCE. Is that your projection, too?

Ms. JOHNSON. Yes. Of the survey, 20 percent responded. Out of the 2,000; 20 percent responded that they would refinance.

Chairman LAFALCE. How many of the 2,000 responded?

Ms. JOHNSON. Four hundred and seven.

Chairman LAFALCE. Of the 407——

Ms. JOHNSON. Those were the ones that needed to refinance.

Chairman LAFALCE. Did individuals respond saying that they wouldn't refinance or did everyone that responded say they would refinance?

Ms. JOHNSON. That is correct. I asked——

Chairman LAFALCE. I asked either/or. Which is correct?

Ms. JOHNSON. They said they would refinance, everyone who responded, of the 407 out of the 2,000.

Chairman LAFALCE. You sent out 2,000. You got 407 responses and 100 percent of the 407 said they would refinance?

Ms. JOHNSON. Correct.

Chairman LAFALCE. You didn't hear from approximately 1,600 others?

Ms. JOHNSON. Because the questionnaire said if you need to, want to, will, must refinance, please answer this questionnaire. So, we felt that based on the way the questionnaire was——

Chairman LAFALCE. Sometimes people just don't bother filling out questionnaires at all. I get a dozen questionnaires per day. I just don't know that you can conclude automatically that you would only have 20 percent refinancing.

Ms. JOHNSON. We realize that this is an estimate. We did a breakdown of percentage rates, and 58 percent of those borrowers are above 10 percent, so you know that those 42 percent, unless they have to expand or settle an estate or sell a business, are not going to touch their loans because they have good rates. So, I think that is important to keep in mind, too.

Chairman LAFALCE. Should we allow relief only for those above a certain percentage rate?

Ms. JOHNSON. I don't believe so.

Chairman LAFALCE. Perhaps providing for some hardship exceptions?

Mr. BROOKER. We would probably like to see the hardship exceptions allowed.

Chairman LAFALCE. What would be a hardship?

Ms. JOHNSON. Expansion, settling an estate—sell a building or sell a business for retirement or whatever the issue is.

Chairman LAFALCE. What are you basing those on—your 407 responses?

Ms. JOHNSON. Correct.

Chairman LAFALCE. In your testimony, did you give information as to what each of the 407 would be using the refinanced monies for?

Ms. JOHNSON. No, I did not, only on a case-by-case basis. In Mr. Moore's case in Oregon, I discussed it with him and he will get private bank financing. Most of the ones that I have spoken to have said they would go to private financing.

Mr. BROOKER. If we are talking $100 million in repayment, I notice most of the penalties are running around 25 percent, so that means the Federal Government or the Federal Financing Bank would be receiving an influx of $400 million in the repayment of these loans, the actual principal balance. We are concerned about the actual prepayment.

In my way of thinking, I would think that if you are going to receive $400 million that would have some offsetting effect on the prepayment penalty, wouldn't it?

Chairman LAFALCE. Not the way OMB does its scorekeeping.

Mr. BROOKER. Well, I don't agree with that. We are talking—on this prepayment penalty, my loan will be 10 years old next year in 1995.

Chairman LAFALCE. Are all of you in your second half life?

Ms. JOHNSON. Yes.

Mr. NICHOLAS. Eight out of 25.

Mr. BROOKER. I am 9 out of 20. Even if we paid the loan off, paid all the principal back at the end of 10 years, they are still asking us to pay the interest payment for year 12 through 20.

Chairman LAFALCE. I understand. That is the odious part of the prepayment penalty.

That is why we passed legislation under Reagan, he vetoed it; and then we passed legislation again under Bush, got it out of the House, but it was bottled up in the Senate because of the Bush administration position.

I understand the inequity. It cries out for redress. The only question in my mind is not whether there will be redress, but what is the most equitable redress, given the fiscal constraints? No matter what we come up with, everybody is not going to be happy. We are going to do the best we can. You listen to the administration proposals, you see some flaws in that; you listen to NADCO's proposal, you see some flaws in that.

Mr. NICHOLAS. Mr. Chairman, in past conversations with Erskine Bowles, he seemed at various points to suggest that it would be a good thing to—or he was willing to displace funding of other programs for monies required to solve this problem. I am sure there is lots of rhetoric——

Chairman LAFALCE. People from those other programs weren't in the room.

Mr. NICHOLAS. I am well aware. I understand. I am pretty stupid, but not entirely. But of course I would have one concern——

Chairman LAFALCE. A lot of other participants in SBA programs are suggesting that rather than eliminate their programs, don't use all $30 million the President has requested for prepayment penalty relief, instead use $20 million or $15 million so you don't have to eliminate our program, or so that you could have more. They argue that that is the contract you made and we should let you live by the terms of your contract. This way we could give out X billions of dollars more in loan guarantees, et cetera. There is no want of competition.

Mr. NICHOLAS. I am quite certain of that, as we heard this morning, prior to us. For us, it would be real frustrating to see the expansion of any program, good as they are—as I say, I have experience with three of them, and there are some excellent SBA Programs. But I would hate to see those expanded by one nickel as long as this problem is going unresolved.

Chairman LAFALCE. I understand. The administration proposal I think is a good starting point. It does not, however, provide for relief for the SBIC prepayment problems, and they are virtually identical to yours. It does not provide for hardship exceptions, et cetera. So, we may use the administration's proposal as a starting point, but that would not really help any of you that much who do not have the highest interest rates.

Ms. JOHNSON. One of the things I was told early on, when I began to try to determine what was going on here, was they said if they fixed our program, they would have to fix the REA Program. That has been fixed and that was—took more funds than we are talking about here.

This SBIC Program, I understand, is nearly 10 years old and almost over; and so therefore—I don't know the particulars and I haven't had an opportunity to be sure of my facts, but my understanding is that that is not nearly as tragic as the 503 borrowers.

Chairman LaFalce. Well, it depends upon the circumstances. But for a particular individual company it could be. It could be. So, we are going to have to include everybody in the embrace of the relief effort.

Ms. Johnson. Maybe we should have been included in the REA, and then we would have been through with this thing.

Chairman LaFalce. We tried to enact legislation to solve your problem, but unfortunately that wasn't done. It was vetoed. I can only deal with programs under the jurisdiction of this committee, and the REA Program is not; those others are.

It is like having a lot of children. You want to treat them all equally, which means that they can't go to the three shows a month as they would like to. Because you have so many kids, they can only go to two shows.

We will do the best we can.

Thank you.

[Whereupon, at 12:00 p.m., the committee was adjourned, subject to the call of the chair.]

APPENDIX

Opening Statement
of
The Honorable Jay Dickey
Fourth District - Arkansas

Before the Small Business Committee

Regarding a Hearing on
Small Business Administration Reauthorization Legislation

April 28, 1994

Mr. Chairman, thank you for holding this hearing regarding the reauthorization of the Small Business Administration (SBA), and implementing a number of changes as proposed by this committee and the SBA itself.

The SBA, under the leadership of Mr. Erskine Bowles, has shown a propensity to affect policy unheard of by other federal agencies. The idea that government should be designed to service its customers - the taxpayer - rather than its regulators is only novel in the fact that it is rarely implemented. I must admit that I had some doubts regarding the outcome of Mr. Bowles's reform proposals as presented in this committee last year. Yet, after leafing through this reauthorization, I immediately spot some significant and positive changes, including an extension of the popular micro-loan program, a lessening of 503 loan program prepayment penalties, and amendments to the international trade loan program to facilitate small business export participation.

I look forward to the testimony today and hope that the SBA continues to evaluate and reform its programs to provide the best possible service to our constituents.

Thank you.

STATEMENT OF REPRESENTATIVE FLOYD FLAKE

BEFORE THE COMMITTEE ON SMALL BUSINESS
APRIL 28, 1994

SBA'S LEGISLATIVE PROPOSAL

Thank you Mr. Chairman for holding this hearing, and allowing the committee to hear from the Small Business Administration(SBA) regarding its legislative proposals. As we all are aware, small businesses are the cornerstone for economic recovery and urban redevelopment. Toward that end, the SBA will play a crucial role in the economic recovery of this country. It is therefore incumbent upon the SBA to effectively manage its present programs, as well as suggest changes in existing law which would better enable it to function as a strong advocate for small business.

I would also like to thank Deputy Administrator Cassandra Pulley for her comments and expert testimony this morning. I welcome her suggestions regarding re-authorization and changes in present SBA programs, as well as her commentary on 503 borrower relief. Rest assured that SBA proposals will be considered as its legislative package proceeds through the Committee. I also would be most interested in hearing comments on SBA proposals for minority assistance as well as the SBA's One Stop Capital Shop proposal for Empowerment Zones/Enterprise Communities.

It is my belief that in addition to aiding overall economic recovery, the SBA can play a vital role in the economic recovery of crime ridden urban areas. By extending capital and technical assistance to small businesses in depressed areas, the SBA has the ability to spurn the growth of jobs and individual self worth in urban areas like my district in Queens, New York. For this reason, I ask that Administrator Pulley comment on the One Stop Capital Shop, and other programs that benefit minorities and women. Additionally, if her office could provide detailed information about the Greenline, Lo Doc, and Small Loan Express programs, I would be most appreciative. With that said, I again thank Chairman LaFalce for convening this hearing, and thank in advance Administrator Pulley for her comments.

REMARKS BY CONGRESSMAN JOE KNOLLENBERG
FOR THE SMALL BUSINESS COMMITTEE HEARING
ON THE SBA BUDGET REQUEST AND LEGISLATION

Mr. Chairman, I look forward to the testimony and frank discussion this morning on the SBA budget, and your legislation to amend the Small Business Act.

In much of our debate here in Congress, the American small business sector is often forgotten. That is why it is so important today that this Committee, responsible for small businesses, is here to discuss the Small Business Administration, the single government agency responsible for them.

As we proceed today, we should pay a close eye to how we can best reshape the SBA to provide effective help to as many small businesspeople as possible.

We must keep in mind that we are here to serve the small business **sector**, and not specific industries or specific businesses.

We must also remember, however, that the SBA does not operate in a vacuum. Rather, it operates as a part of a government with a huge annual budget deficit, adding to our national debt every year.

I welcome this opportunity to explore some of the ideas to improve the efficiency of the SBA, increasing its ability to provide effective services and serving as the governmental voice of our nation's small businesses.

COMMITTEE ON SMALL BUSINESS

JOHN J. LaFALCE, CHAIRMAN

HEARING ON SBA AUTHORIZATIONS

The Committee will come to order.

This morning the Committee commences hearings on reauthorization of the Small Business Administration for fiscal year 1995. As has been our practice in the past, I believe the Committee will determine it to be appropriate to not only provide authorization levels for the upcoming fiscal year, 1995, but also for the ensuing two, and possibly even three, fiscal years.

Before we get to the specifics of today's hearing, I want to note for the record that, unfortunately, this will be a somewhat abbreviated hearing. Due to the unfortunate passing of former President Richard M. Nixon, and yesterday's national day of mourning, it was necessary to postpone a hearing on a small business procurement bill I introduced, H.R. 4623, the Small Business and Minority Small Business Procurement Opportunities Act of 1994. Due to prior commitments for the immediate future, the only time to re-schedule that hearing was for later today, at 11:00 a.m. To accommodate that very important subject, we are starting this hearing early, will ask everyone to speak with brevity, and in the interest of time, I will shorten my own remarks.

I must say a few additional words, however.

The legislation under consideration this morning consists of two bills requested by the administration.

The first is to provide partial relief to borrowers under SBA's 503 program which provides long term capital for plant and equipment through the development company program which I authored over a decade ago. Until about 1987, these debentures were sold to the Federal Financing Bank, an arm of the Department of the Treasury, although they are now sold solely to private investors. It is only the former FFB financings which are causing the problem - - - as the result of a provision of the FFB charter legislation which Treasury interprets as mandating what I can best describe as an onerous penalty in the event a borrower elects to prepay the loan.

Proposals to provide relief from these penalties are not new to me or to this Committee. I authored a relief bill which was vetoed by President Reagan in October of 1988. In the next Congress, a similar measure was again passed by the House, but was killed by the Senate due to opposition by the Bush Administration.

I am extremely pleased to receive the Clinton administration's legislative proposal to rectify this penalty problem. I introduced it last Monday by request as H.R. 4298. Based upon prior House action, one might reasonably expect that it would pass quickly; but I want to point out that this may not be the case now. We are in the midst of a major effort to reduce the deficit, and under Federal budget rules this necessitates less spending for all agencies, including SBA. H.R. 4298 will be scored as "costing money" and, in fact, the administration's budget request for next year includes $30 million to permit SBA to pay part of the penalty on behalf of these 503 borrowers.

We will try to provide some relief, but we are short at least $140 million in funding SBA programs and some new Clinton initiatives, such as this legislation.

The second topic for today's hearing is H.R. 4297. The bill would provide specific program levels for the SBA major programs for the next three fiscal years. Those who understand SBA's vital role in providing financing to the small business sector will be extremely pleased by the levels being requested - - - the amount of guarantees would grow from $11 billion this year to almost $23.5 billion in fiscal year 1997.

I am not, of course, endorsing each and every one of these levels, nor all of the program changes being advocated in the bill. I do believe, however, that the Clinton Administration is to be congratulated for its willingness to develop and expand the SBA to meet what they believe to be the needs of the small business community, and I am looking forward to working with the officials of the SBA to accomplish this.

This morning we are pleased to have before us the Honorable Cassandra Pulley, Deputy Administrator of the Small Business Administration. I look forward to hearing from her on behalf of the Administration.

Do other Members have opening remarks?

STATEMENT BY CONGRESSMAN JIM RAMSTAD
BEFORE THE HOUSE SMALL BUSINESS COMMITTEE
April 28, 1994

HEARING ON THE SBA'S LEGISLATIVE PROPOSAL

Mr. Chairman, I am pleased to welcome Small Business Administration (SBA) Deputy Administrator Cassandra Pulley here this morning to discuss the reauthorization bill for the SBA.

I certainly hope that as we examine the SBA's legislative proposal this year, the recurring problems we've seen can be avoided and the SBA can do what it was designed to do.

Mr. Chairman, I certainly look forward to reviewing the SBA's specific proposal with today's witness.

Opening Statement of Congressman Walter R. Tucker
Committee on Small Business
April 28, 1994

GOOD MORNING, EVERYONE. I AM VERY HAPPY TO BE HERE THIS MORNING TO GET AN UPDATE ON SBA'S LEGISLATIVE PROPOSALS FROM DEPUTY ADMINISTRATOR CASSANDRA PULLEY. THERE ARE MANY IMPORTANT ISSUES COMING UP REGARDING REAUTHORIZATION AND CHANGES IN SBA PROGRAMS. I AM ALSO INTERESTED TO HEAR SBA'S PROPOSAL ON HOW TO DEAL WITH PARTIAL RELIEF FOR 503 BORROWERS FROM PREPAYMENT PENALTIES.

I WOULD LIKE TO THANK DEPUTY ADMINISTRATOR CASSANDRA PULLEY FOR COMING IN TO TESTIFY BEFORE US THIS MORNING AND I THANK THE CHAIRMAN FOR CONDUCTING THIS VERY IMPORTANT HEARING.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

TESTIMONY OF

CASSANDRA M. PULLEY

DEPUTY ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

APRIL 28, 1994

Mr. Chairman and members of the Committee, thank you for inviting me to testify on the Small Business Administration's (SBA) proposed legislative initiatives. I am pleased to have this opportunity to describe this package, which includes recommendations for changes that reflect the Administration's budget request for Fiscal Year 1995 and that will allow us to carry out our vision of the future for the SBA.

This Administration recognizes that small businesses are an important part of the overall effort to create and sustain a pattern of steady domestic economic growth and job creation. We believe that if the recommendations in the legislative package are adopted, the SBA will be better prepared to meet the needs of the small business community.

Administrator Bowles and I look forward to working with Congress to fashion a program for the coming years that truly fits the needs of small business while ensuring that taxpayer dollars are spent wisely. It is vitally important that we continue to work together to ensure that these critical needs are met through full funding of the 7(a) and other SBA loan programs and that these programs continue to be authorized under the Small Business Act at sufficient levels in FY 1995 and beyond. As you know, the current authorization for our appropriations in Section 20 of the Small Business Act will expire at the end of FY 1994. In addition, SBA's authority to enter into cosponsorships with the private sector and our authority for the Preferred Sureties program will also expire at the end of FY 1994.

MICROLOAN PROGRAM

Sections 101-104 of the SBA's proposed bill would amend the SBA's present authority to operate our Microloan Program under which the SBA provides small loans for start-up or expanding small businesses. The Microloan program was established on a 5-year pilot basis in October, 1991, and the program has been operating for approximately 21 months. During this short period of time, the number of lenders in the program has risen from an initial 35 to 97. We currently have 95 lenders operating in the program.

As of February 28, 1994, we had approved a total of $38,100,000 in loans to our intermediary lenders. These loans are disbursed to the intermediaries as they need funds to make loans to very small businesses. As of the same date, the intermediaries had made 1,278 loans to small businesses for a total of $13,316,989. The average loan amount to small businesses was $10,420. The average interest rate being paid by the small business is 10.31 percent, and the average loan maturity is approximately 27 months.

We have found that approximately 54 percent of the loans made by the intermediaries are to small businesses in urban areas and approximately 45 percent are made in rural areas. Approximately 40 percent of the Microloans made have been to start-up businesses, 45 percent have been made to women-owned businesses, and 37 percent have been made to minorities.

In response to those who believed that the program would be a high risk, I am happy to say that, so far, it is not. Thus far, the program has experienced a loss rate of only 1.6 percent when calculating the number of loans and 1.4 percent when calculating the number of dollars. We have experienced no losses on loans made to intermediaries.

Currently, the SBA makes <u>direct</u> loans to non-profit intermediaries which, in turn, make loans and technical assistance available to small businesses. The proposed legislation would permit SBA to guarantee up to 100 percent of loans made by selected "participating lenders" to ten urban and ten rural intermediaries. This would permit the SBA to observe whether changing the direct program to a guaranty program will stimulate greater activity through an increased number of intermediaries and intensified local investment in the success of microbusinesses. If increased activity results, the concept of a guaranty program could be extended, through subsequent legislation, to a program-wide status. (For purposes of this program, "participating lenders" may be any private sector for-profit corporation or non-profit organization including, but not limited to, regulated lenders, insurance companies, pension funds, trusts, and foundations or other entities acceptable to the SBA.) We are proposing the guaranty pilot for several reasons:

1. Changing the program from a direct approach to a guaranty approach will allow the Agency to implement a revolving line of credit for the first 5 years of a loan to an intermediary, thus allowing intermediaries to build their portfolios and income streams during their first 5 years of program participation.

2. We believe that the SBA will realize a significant cost savings from the reduction of our administrative role in the Microloan process. Under a guaranty arrangement, the SBA would be released from many of the time-consuming tasks required to disburse and monitor loans to intermediaries since these tasks would be performed by the lender in a manner similar to that existing in the 7(a) guaranteed loan program.

3. Based on the pattern of activity shown to date, demand for the Microloan program will outstrip any future direct loan appropriations that could be generated given the budget deficits. Moving into a guaranty program will allow the SBA to meet expanded needs without exacting a proportionally expanded administrative requirement on the budget.

4. We believe that it is important to get traditional lenders involved in supporting this type of lending in their communities to build a smooth transition from microloans to traditional loans for the small business owner. We anticipate that as customers "outgrow" their need for the special assistance afforded by the intermediaries, they will move into a direct relationship with the already involved traditional lender. This will increase capital flowing to the business community, increase lender activity in areas previously overlooked, such as low-income neighborhoods, and ultimately increase profit for the traditional lending community.

   We are also requesting support to allow the Agency to approve loans made to intermediaries by alliances of lenders. This will encourage smaller lenders to join together to make large loans to intermediaries. We believe this approach will be particularly helpful in areas where a single lender may not have the capacity to lend to an intermediary but a consortium of lenders, with pooled funding, could make a strong investment in the community.

Because the Microloan program has met with such success and enthusiasm, we believe that the time is right to bring the Microloan program to areas of the country that currently are not served. We are proposing three initiatives to address this:
(1) raising the cap on the number of intermediaries allowed into

the program from 110 to 200; (2) removing the limits on the number of intermediaries in individual states while imposing a limitation of $5 million in loans to be made in any state; and (3) raising the maximum dollar limits on individual lenders from $1.25 million to $1.75 million in order to allow program growth in states with very active borrowing communities. We believe that market demand should govern the number of lenders and dollars loaned in the program -- not the program authorization and appropriation levels. This conforms to the method by which the 7(a) program is operated.

We believe that all of the above requests, if approved by Congress, will place the Microloan program in a position to better serve the small business community.

EXPORT LOAN PROGRAM

Title II of the bill deals with SBA's export loan program. There is no denying that exports -- particularly small business exports -- are vitally important to our economy. According to the U.S. Department of Commerce, every billion dollars in exports creates about 20,000 new jobs. These export-related jobs pay, on average, 17 percent more than other U.S. jobs. And exports have accounted for 70 percent of U.S. economic growth since 1989. Small businesses employ over half the workers involved in direct merchandise exporting. These small companies will lead the way to future U.S. economic growth and are the key to our ability to compete in the global marketplace.

The SBA offers financial and business development assistance to help small firms develop and complete export sales. This development assistance includes periodic new-to-export workshops, extended counseling through public and private sector resource partners, and export publications. Two of our main objectives for FY 1995 are to continue revamping the SBA's Export Working Capital Guarantee Program (currently known as the Export Revolving Line of Credit) and to improve delivery of export assistance to the business community through U.S. Export Assistance Centers (USEACs).

The SBA's focus will be to deliver an effective export working capital guarantee program. The new program will offer preliminary commitments for exporters, additional incentives for lenders to use the program, and streamlined forms and documentation for both lenders and exporters.

The SBA is harmonizing our working capital program with that of the Export-Import Bank of the United States (Eximbank) to eliminate overlap, waste or duplication and to provide "seamless" delivery of Federal export finance assistance to financial institutions and exporters. This initiative will make export financing more accessible to our small business customers.

Section 201 of our bill would amend the Small Business Act to increase to 90 percent the maximum guarantee coverage available to a participating lender for an Export Working Capital loan.

Presently the percentage of guaranty the SBA makes available for such loans varies up to a maximum 90 percent based upon the dollar amount of the SBA's participation in the loans. Increasing export loan coverage to 90 percent in all cases will make our program consistent with Eximbank's Working Capital Guarantee program as well as the export finance programs of most states. Adoption of this proposal as a means of harmonizing these programs is an important element of the President's National Export Strategy. Effective October 1, 1994, Eximbank will reduce its coverage from 100 to 90 percent.

Section 201 of the SBA's bill would eliminate the present statutory prohibition on International Trade Loans (ITLs) of $155 thousand or less. The ITL authorizing statute now allows SBA to provide total export financing of up to $1.25 million -- $1 million for financing U.S.-based facilities and equipment, plus up to $250 thousand for working capital. The authorizing legislation for the ITL program requires an SBA guarantee on such loans of not less than 85 percent. A separate provision of the authorizing language requires the SBA to guarantee not less than 90 percent of loans $155 thousand and under. Consequently, the SBA's policy has been to preclude guarantees of ITL loans of $155 thousand or less. As a result, SBA has been precluded from financing exporters who may meet all the ITL program criteria, but the loan requested is too small. This proposal would eliminate the inability of SBA to serve the needs of businesses that seek such assistance.

Section 202 of the bill would provide authority for the SBA to guarantee standby letters of credit. Standby letters of credit are a common feature of many international sales contracts and are intended to ensure the performance of exporters with whom a foreign buyer may have little or no experience. Standby letters of credit operate much like a performance bond in a domestic construction contract and are very prevalent in international transactions. Eximbank and most states permit standby letter of credit financing under their export financing programs. However, the SBA does not have the authority to support standbys unless the guaranteed-loan proceeds are placed in an escrow account, a requirement that increases exporters' costs and is cumbersome for lenders to administer. This proposal also would eliminate the present statutory language that limits export revolving lines of credit made under section 7(a)(14) of the Small Business Act to three year terms. Most loans will be 12 months or less. Decisions on the number of renewal requests will be based on credit factors, consistent with the Eximbank program.

Section 203 of the bill would eliminate the present $250 thousand cap on working capital loans made under SBA's International Trade Loan (ITL) program. SBA has received numerous requests from lenders to finance working capital loans in excess of the $250 thousand limit but within the combined cap of $1.25 million, for example, $750 thousand for facilities and equipment and $500 thousand in working capital. The change we recommend would result in a much more flexible program that is consistent with the needs of our constituency.

PASS MODIFICATIONS

Title III of the bill deals with SBA's small business procurement program. Section 301 would amend the authority for SBA's Procurement Automated Source System (PASS) to provide for the capture of information on other than small businesses.

The Small Business Act provisions that authorize PASS currently allow only the records of small businesses to be maintained in the system. This restriction prohibits PASS from reaching its full potential and should be modified to allow records on firms other than those that are small. Such a change would permit the SBA to capture information on the 4,000 or so large businesses that are available to do business with the Federal government, as well as information on non-profit institutions, including historically black colleges and universities and other minority educational institutions. The inclusion of this information would make PASS usable as the single basic file of all those interested in obtaining federal contracts, thus eliminating the need to maintain separate solicitation mailing lists at each government buying office. This will contribute to simplification and streamlining of procurement processes, consistent with the procurement reform initiatives of the Administration. The reduction of solicitation list maintenance will result in significant savings as well as smoother operations. The increased attractiveness and usage of PASS by government agencies and prime contractors will result in wider exposure for small businesses in the database. Additionally, listing all interested firms in PASS will make possible the use of PASS as the basic government resource in the operation of Electronic Commerce and Electronic Data Interchange initiatives. A single registration/identification system is necessary for effective operation of EC/EDI; PASS can most readily be adapted to that need, at minimal cost and without the creation of duplicative systems.

WOMEN'S BUSINESS OWNERSHIP

Title IV of the bill deals with SBA's Women's Business Ownership program. The SBA's Office of Women's Business Ownership has operated exclusively under the authority of Executive Order 12138 since its implementation in 1979. The Office supports the growth and expansion of women entrepreneurs and serves as their advocate through carrying out the provisions of the Executive Order and other Administration and Congressional directives such as the Women's Business Ownership Act of 1988 (PL 100-533) and the Women's Development Act of 1991 (PL 102-191).

Section 401 of our bill would amend the Small Business Act to permanently establish within SBA an Office of Women's Business Ownership (OWBO). Statutorily authorizing the Office would demonstrate a firm commitment by SBA to permanently include women-owned businesses not only in the SBA's programs, but also in those of other agencies and departments. The Office of Women's Business Ownership is the only office throughout the government that aims to assist women business owners and advocate for their needs, and therefore needs permanency to continue meeting the needs of more than one third of the business community.

TECHNICAL CHANGES

Title V of the SBA's bill makes a number of reauthorizations and technical changes in the Small Business Act and Small Business Investment Act.

COSPONSORSHIP AUTHORITY -- Section 501 of the bill would provide a permanent authorization of the SBA's authority to conduct co-sponsorships with for-profit entities. SBA was given specific authorization to cosponsor training activities with for-profit entities in 1984. Since that time, the authority has expired and been renewed three times. The most recent renewal, in 1992, was for two years. Permanent authority would permit the program to operate in a more orderly fashion and facilitate long-range planning that would benefit SBA customers. Many for-profit entities, as well as large Chambers of Commerce dependent upon for-profit entities, operate with three year planning and funding cycles. Because of the uncertainty of cosponsorship renewal (the program authority lapsed for seven months in 1991), SBA cannot take advantage of many opportunities to serve its customers with training events and publications. In addition, off-again/on-again authority erodes the credibility of the SBA with the private sector.

SURETY GUARANTEES -- Section 502 of the bill would provide a permanent reauthorization of the SBA's Preferred Surety Bond Guarantee Program. The authority for this program expires on September 30, 1994. The Pilot Preferred Surety Bond Guarantee program was established to encourage the larger surety companies to expand their efforts to help small businesses obtain bonds. Under this pilot program, the approval process for the surety has been eased. The SBA gives selected sureties the authority to issue, monitor and service bonds guaranteed by the SBA, without SBA's prior approval. The Preferred Surety Bond Program is operated from the sureties' home office to the SBA central office.

The program has increased standard large surety company participation in the SBA guarantee program. Since 1990, fifteen companies have signed an agreement to participate in the Preferred Surety Bond Program. These surety companies accounted for 9 per cent of all bonds and 12 percent of the contract values guaranteed by the SBA in fiscal years 1991 through 1993. Losses under the Preferred Surety Bond Program have been low. For the bonds issued from fiscal year 1991 through fiscal year 1993, the SBA paid out approximately $1.0 million in losses for an overall loss rate of only 0.43 percent. By comparison, SBA paid out $18.8 million for an overall loss rate of 0.87 percent under the SBG Prior Approval Program during this same period. Under the Preferred Surety Bond Guarantee Program, the SBA is able to delegate some program administration to the selected surety partners which enables the SBA to conserve administrative resources. For FY 1995, the SBA has proposed to convert 100 percent of the surety program to the preferred program. This conversion would still allow SBA to expand surety bond guarantees to the small business community and to continue the operation of the program with greatly reduced SBA resources.

<u>DISASTER PERSONNEL PER DIEM</u> -- Section 503 of the bill eliminates a technical restriction on the employment of temporary employees in conjunction with the SBA's disaster assistance program. Section 5(b)(8) of the Small Business Act allows the SBA to pay the transportation expenses and per diem for travel of any person employed by the agency to render temporary services not in excess of six months in connection with any disaster referred to in section 7(b) of the Small Business Act from place of appointment to, and while at, the disaster area and any other temporary posts of duty and return upon completion of the assignment.

A General Accounting Office Report (Number B-242801) found that, in order to comply with this section, "SBA had to release or transfer some temporary employees to other disaster locations when work for which they were qualified remained to be done at their current location." The GAO report recommended the following: "If SBA is to optimize its use of temporary employees assisting victims of major disasters outside the continental United States, the Congress may wish to allow the SBA Administrator the discretion to waive on a case-by-case basis, the provision that limits to 6 months the length of time per diem can be paid to a temporary employee for any one disaster. Such waiver authority could enhance the federal government's efforts to assist disaster victims by permitting SBA to keep experienced employees at a disaster location when there is an overriding need to do so."

We agree with the GAO recommendation. However, we feel the need is important in all mega-disasters, such as Hurricanes Hugo, Andrew and Iniki, whether within or outside of the continental United States. This legislative proposal will give the SBA the ability to employ temporary personnel without the current statutory ban against paying temporary employees per diem in excess of six months for any one disaster. The ban is a particular problem in mega-disasters and results in decreased efficiency and reduced customer services.

In July, we will mark the six month point after the Northridge earthquake in Los Angeles. Key temporary employees dispatched to California to help address acute needs will be forced to leave unless this statutory provision is amended. These loan officers, attorneys and other specialists will be needed for continuing work in modifying loan terms to meet unanticipated construction or financial needs and in closing and disbursing loans to thousands of earthquake victims. The magnitude of our efforts in California is unprecedented and the need for these experienced individuals is clear. As of April 25, SBA has conducted 455,610 interviews of disaster victims and issued 443,594 loan applications. We have already approved 40,843 loans with a value of $1.2 billion. We have 3,120 staff working on the disaster -- on the ground in Los Angeles, in the Sacramento Disaster Assistance Office, and in other locations.

SMALL BUSINESS COMPETITIVENESS DEMONSTRATION PROGRAM -- Section 504 of the bill eliminates a restriction on SBA's authority to change size standards for four industry groups, which was put into effect to support a statutorily established small business competitiveness demonstration program. Section 732 of P.L. 100-656 requires that the numerical size standards pertaining to the four Designated Industry Groups (DIGs) that were in effect on September 30, 1988, remain in effect for the duration of the four-year demonstration program. P.L. 102-366 extended the Competitiveness Demonstration Program for an additional four years. Because the effect of these provisions is to require the size standards that were in effect to remain in effect, the size standards cannot be adjusted to reflect the current status of each affected industry, the economy, or Federal procurement practices, which are normal causes for re-examination of size standards in the administrative process. The suggested legislative change will remove the size standard "freeze" so the size standards may be adjusted if the industry warrants a change.

FUND CONSOLIDATION -- Section 505 of the bill would consolidate the SBA's Business Loan and Investment Fund (BLIF), Disaster Loan Fund (DLF), and Pollution Control Equipment Contract Guarantees Fund (PCECGF) into a single account. These funds were established prior to the enactment of Federal Credit Reform in FY 1992 and currently exist only to liquidate loan obligations made prior to FY 1992. The continued maintenance of these separate funds creates an unnecessary administrative burden on the SBA in terms of reporting and accounting. The new fund would be used for the same purposes as the current three separate funds.

INTEREST EXPENSE COMPUTATION -- Section 506 of the bill would allow the SBA to pass-through the actual interest collected annually on outstanding loans with an approval date prior to October, 1991 and send this amount to the Treasury to meet its requirement for the payment of interest expense under our Business Loan and Investment Fund (BLIF) and Disaster Loan Fund (DLF). This change would increase the accuracy of reporting and reduce our current administrative burden of computing the interest expense under a very complex formula.

<u>SIZE STANDARDS TECHNICAL CORRECTIONS</u> -- Section 507 of the bill would make a number of clarifications to SBA's authority to promulgate size regulations. These clarifications are designed to:

1. Make a technical correction to the Small Business Act (the Act), which now provides only for the use of number of employees or dollar volume of business as exclusive measures of size. To accommodate the use of net worth and net income as measures, the words "for example" are suggested to be added so that the possibility of other measures will be available.

2. Make a technical correction to address a concern that the phrase "head of a federal agency" in this portion of the Act could be interpreted to include the Administrator of the SBA and thereby inhibit the SBA's ability to set size standards. This is proposed to be corrected by adding the words "other than the Small Business Administration."

3. Make an amendment to subsection 3(a)(2)(B) of the Act, which governs the size standards set by other government agencies for their own programs. This subsection requires the size of a firm to be determined based on its last 3 years in business, regardless of whether the measure is of the number of employees or gross receipts. This 3-year requirement for both measures conflicts with SBA's current size regulations. SBA measures size of firms with employee-based size standards on a one year basis and

for gross receipts on a three year basis. We are proposing to modify the language of the statute to be consistent with SBA's regulations. Thus, when other agencies are setting size standards for their own program purposes they will use the same criteria as the SBA.

USER FEES -- Section 508 of the bill would provide the SBA the authority to impose reasonable fees and retain them to offset administrative costs, instead of remitting them to the general receipts of the Treasury.

PUBLICATION AND PRODUCT SALES -- Section 509 of the bill would provide SBA the authority to sell the publications and products it develops as management and technical guides for small business and retain the fees to offset the costs of the publications and products.

AUTHORIZATION LEVELS

Attached to my statement is a chart detailing our proposed authorization levels for the next three fiscal years.

We are not requesting funding for any direct loan programs. The subsidy rate for the 7(a) direct loan programs is 10 to 15 times higher than that of our guaranty programs. Therefore, to get maximum leverage from limited Federal appropriations, we have proposed authorization for guaranty programs only. We believe that with the introduction of the many proposed changes to our lending programs, the traditional need for direct loans will diminish. We also believe there are few, if any, loans that SBA makes on a direct basis that would not be made on a guaranteed basis.

7(a) Program -- The request for budget authorization to support the financial assistance programs of the SBA is based on our desire to provide full support to the President's initiative of alleviating the credit crunch. The SBA's role in meeting this initiative is particularly critical because the SBA's loans serve many businesses normally excluded from traditional financing sources. Demand for the SBA loan programs has been increasing each year, from a FY 1991 level of $4.1 billion to $5.6 billion in FY 1992, to $6.4 billion in FY 1993, to a projected $7.0 billion in FY 1994. Although we have some carry over funding from a previous fiscal year, we must have adequate funding to support continued growth in our existing programs, including the vital export loan program, as well as to support our new programs.

We currently are implementing, or readying for implementation, a number of new initiatives designed to make our loans more accessible to small business owners, particularly women and minorities. The new initiatives include expansion of the GreenLine program, which provides line of credit financing; a low documentation loan program, "Low Doc," which reduces the documentation required on loan requests up to $100,000; the Women's

Pre-Qualification Pilot Loan Program, which will allow women-owned businesses to bring their loan applications to the SBA for review prior to submission to a lender; and the Small Loan Express Program, which allows lenders to use their own forms for loans to be guaranteed by the SBA. Interest in these new programs is very high, and adequate funding must be available to support them. Between the demand for existing programs and for the new initiatives, we are requesting authorization for $9.3 billion in loans in FY 1995, rising to $10.9 billion in FY 1996, and $14.1 billion in FY 1997.

Development Company -- The SBA's Development Company programs (502 and 504) represent another area where demand has dramatically increased over the past few years. Approvals were $475 million in FY 1991, $655 million in FY 1992, and $852 million in FY 1993. Our FY 1994 appropriated level is $1.0 billion, and at the current rate of approvals that level will not be sufficient to meet needs. In fact, we will be sending a letter to this Committee indicating that we need to request an increase in the FY 1994 authorization level to $1.5 billion and we will be proposing a reprogramming request shortly.

The SBA's 504 Development Company program leverages $1.63 in private sector dollars for each 504 guaranty dollar, so we get the most bang for the buck. A $1.5 billion guaranty level in 1994 will result in total financing of $3.95 billion. This program is becoming increasingly popular and important for cities and towns working on economic recovery because it provides long-term loans for business facilities and equipment and has proven itself to be a great vehicle to stimulate job creation. We are requesting authorization of the 502 and 504 programs at $2.2 billion in FY 1995, $3.6 billion in FY 1996 and $5.4 billion in FY 1997.

Microloans -- As I mentioned earlier, we want to move to a guarantee program for Microloans. Approvals in this program were $13 million in FY 1992, and $22 million in FY 1993. Our FY 1994 program level, including amounts carried-forward from FY 1993 is $87 million. We are requesting authorization for micro guarantees at $110 million FY 1995, $175 million in FY 1996, and $250 million in FY 1997.

SBIC Program -- The Small Business Investment Company (SBIC) Program is an important source of equity and subordinated debt financing for small businesses. During the past year, this program has been strengthened by the addition of experienced management and the development of a new participating security, which will allow SBICs to secure "patient" capital to match their long term venture investments. This new program structure will significantly increase the flow of private capital into the program. Although P.L. 102-366 provides authorization for the SBIC and SSBIC programs through FY 1997, the levels in that statute do not adequately reflect anticipated demand, and we are therefore proposing revisions which increase the authorization levels requested. These requested amounts are the result of extensive analysis of expected new applications for licenses, and the anticipated demand for leverage. The requested level for the SBIC program for FY 1995 is $848 million, for FY 1996 $1.4 billion, and for FY 1997 $2.1 billion. These levels include the original funding levels for the MESBIC direct program as provided in P.L. 102-366. The attached chart shows the requested authorization levels for the individual programs.

<u>Surety Bond Program</u> -- The Surety Bond Program remains one of our most popular programs and has a historically low loss rate of about 2 percent. Our FY 1994 appropriated level is $1.8 billion. This request supports the same level for FY 1995. Final bond approvals were $1.1 billion in FY 1991, $1.0 billion in FY 1992, and $1.0 billion in FY 1993. We are requesting only a slight authorization increase due to the trends in the construction industry and the available surety markets. Also, we are experiencing a steady growth in the usage of the Preferred Surety Bond Program, which provides a 70 percent guaranty versus up to 90 percent guaranty in the Prior Approval Program. The requested level will enable a significant leveraging of Federal funds for the SBA to provide small businesses the opportunities to obtain bid, performance, and payment bonds necessary for access to procurement annually in fiscal years 1995 through 1997.

503 PREPAYMENT PENALTIES

We have also sent to you a second piece of legislation which is designed to relieve borrowers under SBA's now-defunct 503 development company loan program of the onerous prepayment penalties currently imposed upon them.

The 503 loan program began in 1981 at a time when interest rates were much higher. The program provided long-term fixed rate financing for businesses needing to acquire industrial or commercial buildings, and to buy machinery and equipment. There are two loans in each project. A bank or other private sector lender provides at least 50 percent of project cost and gets a first lien position on all collateral. An SBA-guaranteed debenture funded through the Federal Financing Bank (FFB) is used to fund a 503 loan for 40 percent of the project cost and is collateralized by a second lien position. The small business finances the remaining 10 percent independently.

About $992 million was funded through the 503 program. In 1986, Congress enacted Section 504 of the Small business Act, creating a slightly modified successor to 503. There were two reasons why the 1986 legislation was needed. First, 503 debentures were sold to the Federal Financing Bank, which at the time was being changed from an off-budget to an on-budget status. This meant that 503 funding would be treated like a direct loan for budgetary purposes, despite the fact that to the SBA, it was a loan guaranty. Under the budget scoring procedure in use at this time, this change would drive up the budget authority needed to fund a given program level. A second concern was the prepayment penalty, and because of that SBA paid particular attention to the prepayment issue in designing the 504 program. Except for the prepayment penalty, the 503 program was well-designed and very successful.

Currently, about 3,600 of the original 4,900 503 loans remain in existence with interest rates as high as 15.7 percent. The prepayment penalties prevent many borrowers from refinancing at today's lower rates.

From the borrower's perspective, there was only one major problem with the 503 program: the prepayment penalty. The FFB allows borrowers to prepay so long as they pay an amount that can be invested to produce a semi-annual payment stream identical to that of the original debenture. If the current interest rate is lower than the original rate, the borrower must pay an amount greater than the remaining balance of the loan.

Because market interest rates have fallen considerably since these loans were made, the prepayment penalties today are as high as 64 percent of the remaining loan balance. The lower rates go, the higher the penalty.

Because of the large prepayment premiums, these firms cannot take advantage of lower interest rates. Except where the 503 loan is only a small proportion of these businesses' assets, they cannot attract additional capital, expand, modernize, or create new jobs.

Refinancing is an option often exercised by other non-503 borrowers. The 503 prepayment penalty is an extreme hardship to 503 borrowers and is unlike any encountered in the private market. In order to prepay a 503 loan, a borrower is required to pay an amount that can be invested to produce a semi-annual payment stream equal to that of the original debenture. Because market interest rates have fallen considerably since 503 loans were made, the amount of money needed to generate the same amount of income stream is very high, some as much as 64 percent of the remaining loan balance.

The SBA's proposal replaces the 503 prepayment penalty with the 504 prepayment penalty. The 504 penalty is a market-type penalty in use today that is widely accepted by small businesses. It is a fixed percentage declining annually to no penalty after ten years of a twenty year loan. The proposal would allow borrowers to use a 504 loan to refinance a 503 loan. This will benefit small business owners by providing them with an available source of credit. Borrowers may also refinance their 503 loans through the SBA's 7(a) program, through private lenders or with personal sources.

The Agency will make the new prepayment opportunity available first to those borrowers who are paying the highest interest rates on their 503 loans. The SBA will notify all 503 borrowers with interest rates of 12 percent or higher that for 90 days they will have the first opportunity to avail themselves of the lower penalty. After that 90 days, SBA will move to the next group of borrowers under 12 percent for an additional 90 days until the $30 million appropriation requested by SBA is exhausted or all 503 loans are refinanced. SBA has requested $30 million in its Fiscal Year (FY) 1995 budget request to offset the interest differential for 503 borrowers who prepay their loans with the 504 prepayment penalty. This money will be forwarded to the U.S. Treasury by the agency as the 503 loans are prepaid.

The SBA's proposal also allows the 504 job creation requirement to be waived. In order to obtain their loans, 503 borrowers already satisfied this requirement. This proposal is a refinancing rather than a new investment.

This proposal would eliminate the statutory prohibition against Treasury providing financing under the 504 program. It would not mandate that Treasury provide the financing, but simply would give the Administration the flexibility to decide the best source of financing to use for the program.

If 503 small business borrowers are allowed to refinance their loans at today's lower interest rates, they will be able to expand their businesses and create more jobs, thus providing a boost to the overall economy.

Mr. Chairman, I believe the legislative proposals I have presented today will strengthen our SBA programs and better serve the small business community. Thank you very much for the opportunity to testify today, I will be happy to answer any questions you may have.

SMALL BUSINESS ADMINISTRATION
PROPOSED AUTHORIZATION LEVELS

	AUTHORIZED		PROJECTIONS					
	FY 1994		FY 1995		FY 1996		FY 1997	
	SBA Share	Estimated Gross	SBA Share	Estimated Gross	SBA Share	Estimated Gross	SBA Share	Estimated Gross
Direct & Immediate Participation Loans	$143,000,000	$143,000,000	$0	$0	$0	$0	$0	$0
Handicapped	22,000,000	22,000,000	0	0	0	0	0	0
EOL	27,000,000	27,000,000	0	0	0	0	0	0
8(a)	12,000,000	12,000,000	0	0	0	0	0	0
Veterans	22,000,000	22,000,000	0	0	0	0	0	0
MICRO	60,000,000	60,000,000	0	0	0	0	0	0
Deferred Paprticipation & Other Financings	$8,700,000,000	$10,440,000,000	$11,625,000,000	$13,910,000,000	$14,710,000,000	$17,475,000,000	$19,825,000,000	$21,450,000,000
General Business	7,200,000,000	8,890,000,000	9,315,000,000	11,500,000,000	10,935,000,000	13,500,000,000	14,175,000,000	15,500,000,000
Development Companies	1,500,000,000	1,550,000,000	2,200,000,000	2,300,000,000	3,600,000,000	3,800,000,000	5,400,000,000	5,700,000,000
Micro Gty	0	0	110,000,000	110,000,000	175,000,000	175,000,000	250,000,000	250,000,000
Small Business Investment Companies 1/	$504,000,000	$504,000,000	$848,000,000	$848,000,000	$1,444,000,000	$1,444,000,000	$2,110,000,000	$2,110,000,000
SBIC	190,000,000	190,000,000	210,000,000	210,000,000	250,000,000	250,000,000	310,000,000	310,000,000
MESBIC Gty	42,000,000	42,000,000	65,000,000	65,000,000	70,000,000	70,000,000	75,000,000	75,000,000
MESBIC Dir	22,000,000	22,000,000	23,000,000	23,000,000	24,000,000	24,000,000	25,000,000	25,000,000
Participating Securities	250,000,000	250,000,000	550,000,000	550,000,000	1,100,000,000	1,100,000,000	1,700,000,000	1,700,000,000
Surety Bond	$2,084,000,000	$2,368,200,000	$1,760,000,000	$2,000,000,000	$1,760,000,000	$2,000,000,000	$1,760,000,000	$2,000,000,000

1/ Although this program has been authorized through FY 1997 under P.L. 102-366, the approved levels do not adequately reflect anticipated demand, and therefore, require a revision.

EXPLANATION OF SMALL BUSINESS SIZE STANDARDS AS THEY RELATE TO BOAT DEALERS AND MOTOR VEHICLE DEALERS

The SBA is responsible for developing small business definitions, or size standards, that determine what size of firm is eligible for SBA assistance programs. The SBA has established a separate size standard for most industries in the private sector of the economy. Size standards are developed by evaluating the structural characteristics of an industry, which include characteristics such as: average firm size, competition, start-up costs, and the distribution of employees and sales by firm size. The SBA also examines the impact that the current and alternative size standards may have on its programs. As part of the process to establish or revise a size standard, the SBA publishes a proposed rule that describes the analysis supporting the proposed size standard and requests the public to comment on the proposal.

An examination of the industry structure of the boat dealers Standard Industrial Classification (SIC code 5551) and the motor vehicle dealers classification (SIC code 5511) reveals that the boat dealers industry has a much larger proportion of smaller-sized firms than the motor vehicle dealers industry. For example, the average size firm in the boat dealers industry is $1.3 million in sales, while the average firm size in the motor vehicle dealers industry is $11.7 million. Under the current size standard of $5 million for boat dealers, 93% of all boat dealers are considered small businesses. These small firms combine to generate over 60% of total industry sales. By contrast, under the much higher size standard of $21 million for motor vehicle dealers, 86% of dealers are considered small, and these small dealers are responsible for only 42% of sales. Thus, even though the motor vehicle dealer size standard is four times larger than the boat dealer size standard, it actually defines as "small" a smaller proportion of firms and economic activity than the boat dealers size standard. These differences in coverage for these two industries reflect the SBA's policy to establish its size standards on a relative basis by industry structure so that industries composed of larger firms will have higher size standards than those dominated by smaller firms.

Repayments of principal and interest comprise the overwhelming majority of cash inflows to our loan programs. The weighted average subsidy rate of our direct programs is about 22%, which means that 78 cents of every dollar loaned is returned. However, Congress only appropriates the subsidy portion, i.e. the twenty two cents. That money is never returned. It represents the reserve we set aside to pay for the net losses and miscellaneous expenses we anticipate. Our guaranteed loan programs have a weighted average subsidy rate of about three percent; ninety seven cents of every dollar is returned. Two of this ninety-seven cent comes in the form of fees, so the more accurate figure of ninety-five cents applies. Again, the three cents Congress appropriates is never returned, it subsidizes the net losses and miscellaneous expenses of the program.

OPENING STATEMENT
OF
THE HONORABLE JAY DICKEY
Fourth District - Arkansas

BEFORE THE SMALL BUSINESS COMMITTEE

REGARDING A HEARING ON
SMALL BUSINESS ADMINISTRATION REAUTHORIZATION LEGISLATION

MAY 4, 1994

Mr. Chairman, thank you for holding this, second in a series of hearings, regarding the reauthorization of the Small Business Administration (SBA), and implementing a number of changes as proposed by this committee and the SBA itself.

I wanted to suggest, Mr. Chairman, that I find it extremely appropriate to hold a hearing on this important topic during the 31st Annual Celebration of Small Business Week. The exciting schedule of events, including luncheons, breakfasts, and plenty of speeches provides an excellent backdrop to this hearing.

These small business people, who fulfilled the criteria for Small Business Persons of the Year, including staying power, growth in number of employees, increases in sales or unit volume, strong financial reports, innovative products or services, ability to respond favorably to adverse conditions, and contribution to community represent the additional fulfillment of the American Dream. They deserve to be congratulated.

They also deserve to be listened to.

These business people have become successful because they have learned to gauge risk, invest capital, implement new ideas, and often fight for the very survival of their companies. They are in the trenches, so to speak, and when they suggest that their most pressing problem regarding the expansion of their business is the interference of the federal government, this committee needs to take action. I believe that the bills before us are a step in the right direction.

I look forward to the testimony provided by the panel of witnesses before us today. Thank you.

Statement of Congressman Jay Kim
House Committee on Small Business
May 4, 1994

Thank you Mr. Chairman. In looking over the Small Business Administration's legislative requests, I was struck by the "good news/bad news" character of what the SBA is proposing.

The good news is that many of the legislative proposals that we are considering here today represent important steps in the right direction for the Small Business Administration.

For example, I am especially encouraged by the SBA's efforts to get itself out of the direct lending business and into a position where the agency's principal role will be that of a guarantor of loans. I agree with the Administration's position that these kinds of guarantee programs are more efficient and cost effective than direct loan programs. I also believe that moving into guaranty programs will, in the long run, be beneficial for small businesses as these kinds of programs will encourage small businesses to develop working relationships with traditional lenders.

I am also encouraged by the proposal to reduce pre-payment penalties for small businesses under the 503 program. Doing so will remove an onerous roadblock which is currently preventing many small businesses from taking advantage of low interest rates which are stimulating growth in other sectors of the economy.

Unfortunately, with this good news comes bad news. First, I am concerned with the lack of specific legislative language dealing with new user fees on SBA services. In his recent testimony before this Committee, Mr. Bowles made a number of specific proposals for new user fees... which are, unfortunately, absent from the legislation before us. In the place of these specific proposals is a broad grant of authority to the Small Business Administration to raise $26 million dollars using whatever fees it sees fit. I would hope that before this committee puts its stamp of approval on new user fees, we will be able to get a much clearer picture of exactly what new fees the SBA will put into place using the new authority granted by this legislation.

More importantly, however, I am concerned that the Small Business Administration has completely disregarded the FY 1995 budget request which was presented to this committee only two months ago by Administrator Bowles. [As several of my colleagues have already noted], the budget authority requested in this legislation is nearly $4 billion more than what Mr. Bowles asked for in February -- and this sum does not include funding for the Inspector General's office or for "Salaries and Expenses"! As a former small businessman, I understand how valuable SBA programs are to the small business community. However, given our current budgetary constraints, I hope this Committee will think twice before approving this kind of budgetary excess.

In short, I am encouraged by many of the proposals before us today. I would, however, urge this committee to look deeper into the issues I have just discussed so that we can be complete sure of the course that the SBA is charting for the coming years.

COMMITTEE ON SMALL BUSINESS

JOHN J. LaFALCE, CHAIRMAN

HEARING ON SBA AUTHORIZATIONS

MAY 4, 1994

The Committee will come to order.

This morning we resume hearings on the reauthorizations of programs involving the Small Business Administration and related authorizations.

Last week we commenced this process with testimony from Deputy Administrator Cassandra Pulley on H.R. 4297, the Small Business Administrator Amendments of 1994, and H.R. 4298, a bill to provide partial relief from prepayment penalties imposed upon debentures used to finance small businesses by section 503 Development Companies.

Periodically the Small Business Committee reviews all of the programs within its jurisdiction and provides for a multi-year continuation, including necessary modifications, for those programs it deems to be successful. We last did this in 1990 and subsequently last August made minor changes to "fine tune" our previous decision. This year I expect we will again provide for the continuity which is made possible by multi-year authorizations for loans programs, surety bonds, venture capital programs and others.

In addition, this year for the first time we will be reviewing simultaneously three laws which are being administered by independent bodies.

First, is the White House Conference on Small Business which will commence with a state-wide conference in Wilmington, Delaware, on June 2nd, and which will culminate with the National Conference in Washington the week of June 11th of next year.

Second, is the Central European Small Business Development Commission which was established in order to seek replication of the domestic SBDC Program in three countries in Central Europe: Poland, Hungry and what was formerly Czechoslovakia.

Finally, is the National Women's Business Council which we established in 1988 in order to recommend to the Congress and the President ways to assist women business owners to overcome barriers to fully participate in the mainstream of the American economy.

This morning we are pleased to have appearing before us representatives of small business associations and also the Chairpersons of the two independent commissions and the Women's Council.

Before recognizing our first panel of small business association representatives, do other Members have opening remarks?

OPENING STATEMENT BEFORE THE COMMITTEE ON SMALL BUSINESS
THE HONORABLE MARJORIE MARGOLIES-MEZVINSKY
MAY 4, 1994

I JOIN THE CHAIRMAN IN WELCOMING THIS MORNING'S WITNESSES. THE SBA HAS A BROAD RESPONSIBILITY, AND I AM ANXIOUS TO HEAR FROM THESE WITNESSES THEIR PERSPECTIVES ON HOW THE SBA IS DOING. WE HAVE LEARNED MUCH ABOUT THE CURRENT SBA PROGRAMS, AND I CONGRATULATE CHAIRMAN LAFALCE AND HIS STAFF FOR DOING AN EXCELLENT JOB IN PROVIDING US THE OPPORTUNITY TO HAVE A CAREFUL LOOK AT THE SBA AS WE BEGIN THE REAUTHORIZATION PROCESS.

AS THE CHAIRMAN KNOWS, I HAVE A PARTICULAR INTEREST IN ENTREPRENEURS BECAUSE MY DISTRICT HAS MANY SUCCESSFUL SMALL BUSINESSES, MANY OF WHICH ARE TECHNOLOGY COMPANIES. MY DISTRICT IS ALSO ABSORBING A LARGE SHARE OF DEFENSE DOWNSIZING, AND I FULLY EXPECT SMALL BUSINESSES TO LEAD OUR RECOVERY DURING THESE CHANGES. HOWEVER, THE SBA MUST BE FLEXIBLE TO SERVE THE NEEDS OF SMALL BUSINESS AS OUR ECONOMY CHANGES AND THE DEFENSE DOWNSIZING CONTINUES.

MR. PATRICOFF WITH HIS BACKGROUND IN VENTURE CAPITOL IS PARTICULARLY AWARE THAT HIGH TECHNOLOGY COMPANIES CAN HAVE GREAT POTENTIAL. THAT IS WHY I HAVE BEEN, AND CONTINUE TO BE, VERY INTERESTED IN THE SBIR PROGRAM AND ITS ABILITY TO ASSIST COMPANIES, ESPECIALLY DEFENSE ORIENTED FIRMS, INTO THE COMMERCIAL MARKETPLACE.

THIS CONVERSION PROCESS IS VERY IMPORTANT MY DISTRICT AND THE ENTIRE NATION.

WE HAVE AN IMPORTANT SBIR DEMONSTRATION PROGRAM BEGINNING AT THE BEN FRANKLIN CENTER IN PHILADELPHIA. I AM CONSIDERING INTRODUCING LEGISLATION THAT WOULD BROADEN SUCH AN APPROACH SO THAT THE EFFECTIVENESS OF OUR SBIR INVESTMENTS IS MAXIMIZED.

THANK YOU MR. CHAIRMAN. I LOOK FORWARD TO LEARNING MORE FROM OUR WITNESSES THIS MORNING.

STATEMENT BY CONGRESSMAN JIM RAMSTAD
BEFORE THE HOUSE SMALL BUSINESS COMMITTEE
May 4, 1994

REAUTHORIZING THE SBA

Mr. Chairman, thank you for holding another hearing on the reauthorization bill for the Small Business Administration (SBA).

I certainly hope that as we continue to examine the SBA's legislative proposal this year, the recurring problems we've seen can be avoided and the SBA can do what it was designed to do.

Mr. Chairman, I look forward to reviewing the reauthorization proposal with today's witness.

OPENING STATEMENT
HONORABLE BILL SARPALIUS

Thank you Mr. Chairman for holding this hearing today, and I would like to welcome all the distinguished guests that will be testifying.

I'd like to commend the SBA's foresight in guaranteeing stand-by letters of credit for American exporters. The biggest complaint I heard when I was Chairman of the Small Business subcommittee that oversaw exports was the availability of credit. With the SBA's stamp of approval on letters of credit, we now can better assist small businesses that want to expand into the global market.

In addition, I am pleased to see SBA implementing the TPCC recommendation to revamp the Export Revolving Line of Credit. Hopefully, the change will make the loan program a realistic asset to potential exporters.

Lastly, with women owning over 40 percent of small businesses, I agree that it is time we have a permanent Office of Women's Business Ownership.

Again, thank you Mr. Chairman and I look forward to today's testimony.

Opening Statement of Congressman Walter R. Tucker
Committee on Small Business
May 4, 1994

GOOD MORNING, EVERYONE. I AM VERY HAPPY TO BE HERE THIS MORNING TO GET A FURTHER UPDATE ON SBA'S LEGISLATIVE PROPOSALS FROM TODAY'S PANEL OF WITNESSES. THERE ARE MANY IMPORTANT ISSUES COMING UP REGARDING REAUTHORIZATION AND CHANGES IN SBA PROGRAMS. I AM INTERESTED TO HEAR FROM THIS WIDE SPECTRUM OF SMALL BUSINESSES ASSEMBLED HERE TODAY.

I WOULD LIKE TO THANK ALL OF THE WITNESSES FOR COMING IN TO TESTIFY BEFORE US THIS MORNING AND I THANK THE CHAIRMAN FOR CONDUCTING THIS VERY IMPORTANT HEARING.

EXCERPT FROM THE

STATEMENT OF
ERSKINE B. BOWLES
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

JULY 20, 1993

Section 4 (b) of the bill would affect the Central European Small Business Development Commission, which is an independent Commission that reports to the Congress. It was established in November of 1990 by Public Law 101-515, in accordance with Section 25 of the Small Business Act. The Commission's Congressional mandate is to establish self-sustaining management and technical assistance centers in the Czech and Slovak Federal Republic, Poland and Hungary, similar to the Small Business Development Center Program in the United States.

In Fiscal year 1991, the Commission awarded contracts to undertake research to assess the needs of small businesses in Poland, Hungary and the Czech and Slovak Republics. The contractors researched each country, and evaluated the SBDC program in the United States to determine their applicability for use in these countries. The researchers also assessed potential host institutions as locations for Small Business Centers.

During fiscal year 1992, the doors to the Small Business Centers were opened in Poland and Hungary, providing management and technical assistance programs to entrepreneurs in these two countries. In the Czech and Slovak Republics, site evaluations were completed for potential Small Business Centers.

The Small Business Center programs in Poland and Hungary have only been open for nine (9) months. They are expected to provide their initial performance data in their September 1993 Report. The Czech and Slovak Republics have not yet opened.

In 1993, the Commission will monitor and strengthen the Small Business Centers in Poland and Hungary and work towards the establishment of a Small Business Center in the Czech and Slovak Republics. Through the use of consultants previously involved with SBDCs in the United States, the Centers in Poland and Hungary will also receive on-site assistance to support their first year of operation. In the Czech and Slovak Republics, assistance will focus on the definition of SBDC program activities, the establishment of an organizational structure, and the recruitment of a director.

Since the authorizing legislation provides the SBA shall have one of the three Commissioner positions, we have, of course, been involved in and informed about the work of the Commission.

Although the Commission was authorized the sum of $3,000,000 for fiscal year 1991, $5,000,000 for fiscal year 1992 and $8,000,000 for fiscal year 1993, actual appropriations were $1,000,000 for fiscal year 1991, $1,500,00 for fiscal year 1992, and $1,500,000 for fiscal year 1993.

H.R. 2594 would change the authorization for the Central European Commission from $8 million in fiscal year 1993 to $2 million for each of fiscal years 1993, 1994, 1995 and 1996. SBA supports the objectives of the Commission and agrees with the recommendations.

SOLBAR HATZOR LTD.

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July 27, 1993

Congressman and Ms. Tom Lantos
2182 Rayburn House Office Building
Washington, D.C. 20515, USA

Dear Mr. and Mrs. Lantos,

I trust you will recall my association with the **GIVAT HAVIVA EDUCATIONAL FOUNDATION**. Since my return to Israel in 1991, following a three-year tenure in the States, I was appointed Marketing Director for Solbar Hatzor Ltd., producers of soy protein concentrates as food ingredients for meat and vegetarian meat analogues.

I am pleased to report to you that Hungary has become one of Solbar's largest export markets. Personally, I have had the pleasure of visiting Hungary four times during the past year.

A remarkable series of coincidences has brought our firm into a close cooperation with the **PECS SMALL BUSINESS DEVELOPMENT CENTER**, which acts as a consultant to our client, **ARKANUM**. As you probably know, the Pecs "CENTER", directed by Mr. Istvan Pidl, is funded by the United States Congress under the auspices of the Central European Small Business Enterprise Development Commission (Chaired by Mr. Frank Hoy, University of Texas at El Paso).

I want to commend you and the U.S. Congress on this very successful allocation. Through my own exporting experience to Central and Eastern Europe, I have learned that without the efficient and professional service of people like Mr. Pidl, the likelihood for success would be seriously diminished. I hope that Congress will continue to support Mr. Pidl's "CENTER" and others like this one.

Moreover, I am sure that you will be pleased to learn of this United States - Hungary - Israel connection, and the good will it is bringing to all our countries. Thank you.

With best wishes,

Gary Brenner

Gary Brenner

cc: Frank Hoy, Chairman
Central European Small Business
Enterprise Development Commission

Monika Edwards Harrison,
U.S. Small Business Administration

Mike Van Dusen, Maj. Chief of Staff
House Foreign Affairs Committee

Fred Howard, Chair
Givat Haviva Educational Foundation

MINISTER
OF FOREIGN ECONOMIC RELATIONS

Warszawa, October 21, 1993

Dr. Frank Hoy, Chairman

Central European Small Business
Enterprise Development Commission
409 Third Street S.W.
Washington, D.C. 20416, U.S.A.

Dear Mr. Hoy,

I would like to use the opportunity of the end of the first budget year of operation of the Polish-American Small Business Advisory Foundation to express my appreciation to the Central European Small Business Enterprise Development Commission for making this program available to Polish entrepreneurs.

In spite of the short period of time, the Centers have established themselves well and became known for their high quality counseling services and training seminars. I am aware of the early results of the program, which are very encouraging both in terms of the number of new ventures and new jobs created, as well as strengthening of existing small businesses.

In order to answer the growing demand for small business counseling services locally and in areas distant from the three Centers, the Foundation has developed new expansion and regionalization programs. These programs would be financed from outside sources.

The Project Coordinator, Mr. Dan Wagner from The Scientex Corporation has to be commanded for his role in making the transition to the Polish leadership of the program as orderly as possible. He plays a key role in assisting Foundation's efforts of bringing in outside sources of funding and in providing timely advocacy for the program in Poland. I would like the Commission to look into the possibility of funding the presence of the Project Coordinator in Poland for as long as possible, subject to the availability of financial resources.

Truly yours,

dr Andrzej Arendarski

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Testimony of

Francis R. Carroll
President

Small Business Service Bureau, Inc.
554 Main Street
Worcester, Massachusetts

on

H.R. 4297 and H.R. 4298

Before the

United States House of Representatives
Committee on Small Business

May 4, 1994

Chairman LaFalce and members of the Committee on Small Business, I am very pleased to be here today to support the activities of the Small Business Administration.

I am Francis R. Carroll, president of the Small Business Service Bureau, Inc. (SBSB), a national private sector organization consisting of over 35,000 member companies, all of which employ fewer than 50 people. In other words, SBSB members are the very businesses that need adequate support from the SBA to grow into much bigger businesses. Many of our members are new business start-ups and family owned and operated companies.

Start-up Businesses

SBSB supports Sections 101-104 of H.R. 4297 to expand the Micro-Loan direct loan program aimed at start-up businesses. By removing current limitations on private sector for-profit regulated lenders, insurance companies, trusts and foundations, more of these organizations will becoming participating lenders in the Micro Loan program. I believe that the private sector should be included in all SBA programs wherever possible provided that appropriate safeguards are put in place to certify their honesty and credibility and to protect the small business community and the public.

Micro Loans

The Micro Loan program is a real success story. SBSB has long supported granting very small loans, loans that banks consider too small to bother with. SBA Micro Loans have a good record of providing small loans of $2,000 and $3,000 each as seed money to the truly needy for the purpose of starting small businesses to support themselves and become productive contributors to their communities. This program should be expanded to serve as many of these individuals in as many parts of the nation as possible.

Since next year some states will reach the present ceiling on the amount of assistance the SBA is authorized to approve for Micro Lenders, we favor the provision to increase the current ceiling from $1,250,000 to $1,750,000.

International Trade

I have been involved as SBSB's representative on the Advisory Board of the State Department's Trade Development Program for several years. As such, I can personally attest to the continuing need to support small business exporting, particularly for companies employing under 50 workers. Small businesses account for more than three-quarters of all companies that export, yet SBA's current policy all but eliminates International Trade Loans (ITLs) to the smallest businesses by prohibiting loans of under $155,000. If the SBA is to serve the truly small business, it must be authorized to make smaller loans ... many of which will produce large paybacks for the company, the domestic economy, and for America's balance of trade.

The SBA should also be authorized as proposed to guarantee standby letters of credit which are common in international business practice. By increasing maximum guarantee coverage available to a participating lender for an Export Line of Credit

90%, the SBA program will be consistent with and work in harmony with the EximBank Working Capital Guarantee program, and with many state sponsored programs. SBSB supports the changes proposed in Title II.

Private Sector Program Expansion

As a for-profit entity, SBSB also supports the proposed changes in Title V to permanently authorize the SBA to enter into co-sponsorships with for-profits. This will allow the SBA's private sector partners to better plan and budget for extended activities like training programs and production and dissemination of educational materials to help small businesses better manage their enterprises. The lapse of this program created uncertainty in the private sector partners of SBA, all of which as good business practice require some assurance of continued funding for planning purposes. By providing permanent authorization, the SBA will win increased credibility with private sector partners, like SBSB, that it relies on to deliver programs and services to the small business community.

Women's Business Ownership Program

SBSB supports Section 401 of Title IV to permanently establish within SBA an Office of Women's Business Ownership. Our experience shows that more women than ever are opening their own businesses. Permanent representation within SBA would give the program the recognition it deserves. This segment of our economy has tremendous potential, but its specific needs should be addressed by the SBA and other agencies if women owned small businesses are to thrive and grow. Since small business employ 54% of the workforce, and many them are women owned and operated, a permanent place within SBA is certainly warranted.

Size Standards

SBSB supports Section 504 of Title V relative to removing size requirements during the remainder of the Competitiveness Demonstration Project. However, I want to go on record as favoring size standards more on the premise of the Micro Loan Program rather than higher size standards which allow participation by companies that are really not "small". Remember, nine out of ten companies have fewer than twenty employees. Lets aim our guns at the right target.

Program Expansion Requires Staff

The successful programs referenced deserve not only to be continued, but expanded. I am pleased at the agency's direction in actively seeking out wherever possible private sector partnerships which reduce the agency's cost of delivering services and encourages private industry growth. However, program expansion requires staff within the agency to expand as well. I would encourage the Committee not only to increase programs, but to give the agency proportionate increases in funding to allow the staff of the SBA to function professionally. The same staff cannot be expected to take on more work and do it well. For the sake of quality in programming and to continue to attract and keep professional staff, the budget must funded at a level commensurate with program expansion.

Some of the additional funding that will be needed could be raised by allowing the SBA to impose user fees and new and increased fees on loan and debenture guaranties and on management assistance and educational materials as proposed in Section 508-509 of Title V. This provision would allow the SBA to charge recipients of services for the cost incurred by them and allow these programs to be more self-sustaining. Money currently subsidizing these programs could be used for expansion of other successful programs.

503 Prepayment

The current situation regarding the prepayment penalty which affects a group of borrowers could not have been anticipated when the Federal Financing Bank first acted on these loans. If we had the benefit of a crystal ball back then, this adjustment to provide fair economic treatment would not be needed. But since we had no crystal ball, I support adjusting prepayment penalties now since the hardships they are causing to these businesses were never intended.

In concluding, I once again want to commend the Agency for its policy of partnering with the private sector for delivery of materials and services. This is a very positive course and one on which the SBA should continue. In turn, I believe we owe it to the agency to support the expansion of its successful programs with dollars and staff. The activities of the agency in the small business community result in job growth and expansion in the overall economy from small business contributions far in excess of the public support given to the SBA. As a member of the SBA's National Advisory Council for twelve years, I can attest that the SBA outpulls its weight and deserves an appropriate level of staff and funding to function professionally.

Thank you.

Testimony of
Mary Ann Campbell, CFP
President, Money Magic, Inc.
Little Rock, Arkansas
Chair
National Women's Business Council
Washington, DC

before the
Committee on Small Business
United States House of Representatives
Washington, DC
May 4, 1994

GOOD MORNING!

Mr. Chairman and the Members of the Committee:

I am Mary Ann Campbell, President of Money Magic, Inc. from Little Rock, Arkansas. On March 12, 1993, President Clinton appointed me to be the first private sector Chair of the National Women's Business Council. It was with a deep sense of commitment and a passionate desire to serve the more than six million women business owners that I accepted this position.

1993 was the year the country was asked to embrace change and the National Women's Business Council moved swiftly and decisively to meet its challenges. I am appearing before the Committee today to share with you our accomplishments during this past year, our work plan for the remainder of this year and our vision for the future. Much remains to be done by this Council to support women's business entrepreneurship and we need your support to successfully complete our mission.

On Monday of this week the Council invited our constituents - - the groups that represent women entrepreneurs in this country - - to assist us in assessing our accomplishments and to collaborate on a strategic plan for future initiatives. This meeting was a follow-up to a similar strategic planning session held last year. This year we broadened our circle. It is with a renewed sense of purpose and the strength that comes from the depth of support we received from the twenty groups that participated, many of whom are with us today, that I report on the Council's activities.

My testimony on behalf of the Council, covers the following :

1 - the importance of and the continuing value of the NWBC

2 - measurable goals and initiatives we have produced this year

3 - the private/public partnership which is at the heart of the mission and initiatives of the NWBC

THE IMPORTANCE AND VALUE OF THE NWBC:
As the committee chairman who conceived of and presided over the comprehensive hearings held in 1988 on the status of women's business ownership and, as the author of HR 5050, it was you, Chairman LaFalce, who recognized the importance of the women's business sector and shepherded through the legislation which created the National Women's Business Council.

This Council is serving as a catalyst in the effort to promote and provide opportunities for all women business owners --large, small, emerging, growth, retail, high tech, from Buffalo, New York to Kansas City, Kansas and Los Angeles, California. Opening opportunities for these businesses -- important job creators in the present economy -- is sound government policy.

As expressed so persuasively by you in your committee report "NEW REALITIES, the Rise of Women Entrepreneurs,"

> "At a time when America is suffering from huge budget and trade deficits and from a chronic failure to significantly increase productivity - it is vital for public policy makers to seek means to catalyze the tremendous pool of talent and energy these women represent..."

Six years later, these words still ring true. The women's business sector has experienced unprecedented growth in the number of businesses started and jobs created and, when recent estimates are substantiated by the next census, total business receipts will have more than tripled since 1987.

The 1987 Census reported that 4.1 million women-owned businesses operating as sole proprietorships, partnerships, and Subchapter S corporations exist in the economy. This represented a 57.4 percent increase in the number of such businesses from 1982 to 1987, a rate of growth more than four times the rate for all businesses. In that five year period, total receipts for women-owned businesses nearly tripled -- rising to $278.1 billion by 1987. More recently, a 1992 study conducted by the National Foundation for Women Business Ownership (NFWBO) estimates that there are now 6.5 million women-owned businesses, a count reflecting both the inclusion of women-owned C-corporations (a group previously not identified in census data) and growth in this sector since the 1987 census. That same study estimates that these women-owned businesses employ more workers than the Fortune 500. We are anxiously awaiting the tabulations of the 1992 census which should support the trends identified by the Foundation.

These numbers do not tell the whole story. Despite impressive growth, women-business owners are not living up to their potential and still face tremendous barriers in their struggle for success. The Council is determined to increase the awareness of the contributions that women-owned business do make to the stability and growth of the economy so that policy makers, like yourself, will continue to invest in their development.

As you know, the Council is one of ONLY two programs in this entire federal system specifically designed to promote women's business entrepreneurship. The first program established in 1978, was the SBA's Office of Women's Business Ownership. This office provides outreach to small women business owners promoting the programs and services of the Small Business Administration. The Office also administers the successful Women's Demonstration Projects, negotiates procurement goals with the various federal Departments and agencies and oversees the popular Women's Network Entrepreneurial Training program.

The National Women's Business Council is the other office within the Federal government that serves as both a watchdog for the interests of ALL women's business owners, LARGE AND SMALL, and as an advisor to the President and Congress on ways to create opportunities in the public and private marketplaces. This is our unique role. There is no other entity within the Federal government that serves this purpose. I am pleased to say that at least two state legislatures, California and Colorado [we expect several more this year] have followed your example and created women's business councils to promote women's entrepreneurship within their states.

Think of the increased job creation and tax base that can result from increased opportunities for women business owners. U.S. Small Business Administrator Erskine Bowles' own assessment of women business owners is that they are the high octane that drives the engine of this economy. There is great potential in the women's business sector and the National Women's Business Council is working together with our Federal government partners and women's business advocates make sure women have the opportunities to achieve great successes.

MEASURABLE GOALS AND INITIATIVES

In 1993, the National Women's Business Council brought together prominent women business owners and advocates to develop a strategic plan to target the Council's efforts to those initiatives of greatest importance to women entrepreneurs. It was determined that policy and statutory changes needed to be addressed in three critical areas:

* increase access to public and private procurement opportunities ;

* improve the ability of women business owners to access essential financial resources to successfully start and grow their businesses; and

* to collect more timely and useful data.

Although I would be happy to discuss the accomplishments and projects initiated by the Council in 1993, I thought I would highlight some of the programs we have initiated already this year to address these issues. A more complete discussion of the Council's 1993 recommendations is included in our Annual Report which I have attached for the record.

INCREASING PROCUREMENT OPPORTUNITIES

In the area of Federal government procurement, the Council developed a three point plan to dramatically increase procurement opportunities for women and announced the details in testimony before this committee's Procurement, Taxation and Tourism subcommittee. The Council recommended:

* the enactment of separate five percent statutory goals for women-owned small businesses for all federal government funded prime and sub-contracts, without reducing existing statutory goals or those negotiated by the SBA which are higher than 5%;

* requiring SBA to promulgate a government-wide definition of women-owned business and single certification process; and

* developing an aggressive outreach program to bring women-owned businesses to the federal government bidding table.

We are working closely with the SBA and various federal Agencies to implement these proposals which we believe will dramatically increase the numbers of contract awards to women-owned businesses that wish to do business with the federal government.

ACCESS TO CAPITAL

The Council has also tackled one of the most critical elements of success for all small businesses -- access to capital -- by sponsoring several policy workshops in conjunction with our partners at the Federal Reserve Board. The next workshop, which will be held in Chicago on June 3, will examine the sources and uses of equity capital with emphasis on encouraging investments in women-owned business. We will be working closely with a newly formed network of leading investment experts and private investors, the Capital Circle, who have set out to significantly increase the flow of capital to women-owned business. You are cordially invited to join us for what we know will be a important policy forum on a subject of such keen interest to this committee.

In March, the Council prepared comments on a regulatory proposal to make changes in the Community Reinvestment Act and called for creative new lending criteria targeted at women entrepreneurs. [A copy of these comments are included with this statement.]

DATA COLLECTION

Perhaps, the ultimate challenge for the Council is the task of developing a profile of the fastest growing sector of this economy using official data that is over seven years old. The next census survey is still a year away from completion and the analysis of those tabulations will not be available until late 1995 at the earliest. Policy makers and businesses interested in working with and investing in women entrepreneurs should not have to wait to learn what they have been missing. To assist in the interim, the Council has begun to compile -- in one document -- all the statistics we have about women business ownership. I have with me a draft document which reveals much about what we know and a lot about what we do not know. As soon as we have finished reviewing and revising, I will be glad to make it available to the Committee.

We have also received wholehearted support from Commerce Secretary Ron Brown and SBA Administrator Erskine Bowles for the institution of an annual census on women's business ownership. This survey, together with the more comprehensive 1992 census statistics, will provide irrefutable and invaluable documentation of the contributions that women-business owners make to this economy.

THE PRIVATE/PUBLIC PARTNERSHIP

During the hearings which preceded the passage of HR5050, the women business owners who testified were unanimous in their insistence that the Federal Government place women's business interests as a high priority. In establishing the Council, this Committee recognized that linking the entrepreneurial spirit of women business owners with the access and influence of senior government officials was essential to the success of the Council's mission. An added virtue was its independent status. Yet, entrepreneurial spirit and independence were not enough and the direction of the Council fell pray to the revolving door of public sector chairs. Today, with a reconstituted council, an invigorated leadership, and a professional staff committed to accomplishing our mission, entrepreneurism guides our actions and we are determined to leverage our resources to the greatest extent possible.

We are also infused with the motivation that comes from knowing we have the strong support from women business owners and advocates who recognize the importance of having a national voice.

This support has never been more critical and our role never more important.

At our last council meeting and during the strategic planning session this week, there was a feeling of grave disappointment and disbelief regarding the drastic cuts recommended for the women's entrepreneurial programs. It was noted that the SBA's Office of Women Business Ownership would receive a budget cut of 50%, the Demonstration Project program would lose 75% of its funding and the National Women's Business Council was zeroed out.

These cuts are much deeper than necessary and should be seriously reconsidered. As a business woman, I know the value of a strong voice in Washington to protect and promote my interests. I have had to put my business on the back burner in order to give this Council the attention and the direction it deserves. It was a worthwhile sacrifice but I would like to be able to finish the job.

As a business woman from Little Rock, I know first hand that this President is committed to promoting the interests of small and women-owned businesses and in his support for the Council.

In a letter from President Clinton dated March 25, 1994, he stated, "...women-owned firms owe a debt of gratitude to the members of the National Women's Business Council for all their hard work and dedication. On behalf of all Americans who have benefited from the new jobs and opportunities that you have helped to create, I commend you for your outstanding service."

Allowing the National Women's Business Council to sunset at this juncture would be contrary to your beliefs, Mr. Chairman, that the government should encourage and nurture women-owned business so that they can expand their contributions to the economy including significant job creation and asset building. We, at the Council, have documented through substantive hearings over the years, that barriers remain and, that in some ways, women business owners are often invisible to policy makers. The Council has just begun to shape a structure that can bring about real change in the areas of procurement, access to capital and the kind of meaningful data collection which will ensure that the contributions of these business owners are counted. Together, these efforts should enable contributions of women business owners to flourish -- benefitting our entrepreneurial businesses, their owners, their employees and the economy as a whole.

We have come of age. This is the right moment to support the over 6 million women business entrepreneurs in the nation by reauthorizing the National Women's Business Council.
In conclusion, I would like to repeat the mission of the The National Women's Business Council which was adopted after our 1993 strategic planning session. In the words of the women's business owners, advocates and Council members who participated, the NWBC was created to "ensure the full participation of women business owners in the free enterprise system by identifying and vigorously promoting their interest in ways that can be measured." This vision has yet to be realized.

As I conclude my testimony, I want to give credit to the men who support women entrepreneurs. They fully recognize the power of partnerships and productive business women. Before I accepted the chairmanship of this Council, I consulted the most influential and supportive man in my life, Guy Campbell. He is here today, not only because he supports me, but because today is our 20th wedding anniversary.

We need the support of men like you, and my husband, now more than ever.

Thank you Mr. Chairman. I would be glad to answer any questions.

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Statement of

Ronald B. Cohen
President, National Small Business United

Before the
House Small Business Committee

Regarding
The Reauthorization of the Small Business Administration

May 4, 1994

Mr. Chairman and Members of the Committee:

Good morning. I am Ronald B. Cohen, the 1994 President of National Small Business United, which I am representing at today's hearing. I am founder and managing partner of Cohen & Company, a regional CPA firm based in Cleveland, Ohio. I welcome the chance to be here today and to comment on the reauthorization of the Small Business Administration (SBA), including specific changes requested by H.R. 4297 and H.R. 4298. The SBA is a critical institution for the small business community and one in which National Small Business United has always taken a very active interest.

National Small Business United (NSBU) represents over 65,000 small businesses in all fifty states. Our association works with elected and administrative officials in Washington to improve the economic climate for small business growth and expansion. We have always worked on a bi-partisan and pro-active basis. In addition to individual small business owners, the membership of our association includes local, state, and regional small business associations across the country.

To be sure, the SBA has been subject to some criticism over the years. Though the SBA has shortcomings, it is still the most effective economic development agency for the small business community and entrepreneurship that we have seen. It has also served the nation and its economy through the growth and expansion of small businesses, which the agency has fostered. An investment in the SBA is an investment in the growth of small business, an investment that will add many more dollars to the federal treasury than any narrow program cuts are likely to attain. We also have come to believe that a revitalization is occurring at the SBA, one that should be recognized and encouraged.

503 PREPAYMENT LEGISLATION

The 503 loan program has not existed since 1987, but its legacy lives on as many small business owners are stuck paying its very high interest rates (usually in the double digits), despite today's low rates. 503 loans have very high prepayment penalties, making them virtually impossible to refinance. Some might (and have) argued that the businesses that received these loans should have known and accepted their terms. But in reality, the businesses paying these high rates are often prevented from expanding their businesses and creating new jobs. It would seem to be in everyone's interest to allow these businesses to refinance to today's market rates, yet pay a more reasonable penalty.

The solution offered in H.R. 4298 seems reasonable to us. It ties the prepayment penalty to the one offered by the newer 504 loan program (which essentially replaced the 503 program). Under this scheme, a business would pay a penalty equal to one full year's interest if the loan is prepaid in the first year; that penalty would be phased down until, past the midpoint of the loan's maturity, there would be no penalty.

The bill also foresees utilization of the 504 loan program in another way: as the refinancing vehicle. Under current law, 504 loans cannot be used for refinancings. However, this bill makes a specific exception when the refinance is of a 503 loan. Since there is now longer a 503 loan program to which to turn and since the 504 program is the successor to the 503 program, this exception makes a great deal of sense. It would fold small businesses into the new program from the old program relatively smoothly.

One area of potential criticism of the proposal is the way in which prepayments will be allowed. The Administration has requested $30 million to fund this solution. The SBA intends to offer prepayment opportunities to those borrowers with the highest interest rates first, with prepayment opportunities opened successively to borrowers paying lower rates. This process will be continued until either all borrowers have had an opportunity to prepay or the money runs out. While this system appears fair on the face of it, it also creates a system in which some 503 borrowers are allowed to refinance while others are not.

SMALL BUSINESS ACT AMENDMENTS: H.R. 4297

This bill is the main reauthorization bill for the SBA, and it calls for reasonable yet strong growth in the SBA's financial assistance and loan programs, including the main 7(a) guaranteed loan program. With the large and continuing credit needs of small businesses, it is critical that the SBA aggressively move ahead to serve those small businesses which cannot otherwise be served in today's credit markets. Until federal policy finds other creative ways of encouraging private lenders and investors to put their money into small businesses, the SBA must continue to play a strong and growing role in financing small business start-up and expansion.

In addition to requesting increased authorization for programs such as the 7(a) guaranteed loan program, the bill asks for statutory changes to the Micro Loan and export loan programs. These changes will improve the accessibility of these programs by their customers. Also, the requested changes respond to the real problems faced both by small business owners and SBA officials when attempting to make programs fit their actual situations.

The SBA appears to be moving aggressively forward on the programmatic side. However, we continue to hear of staffing cut-backs in many areas of the SBA. There needs to be appropriate staffing on programs, especially those that are changing or expanding, in order to achieve ultimate success. I am not saying that staffing is necessarily a problem at the SBA, nor am I suggesting that some staffing reductions in the agency are not or have not been called for. But we must take a conscious look to ensure that there is an appropriate match betweens programs and staff in these tight budget times.

The balance of the bill makes sensible, practical changes to make the SBA work better and to allow it to serve its customers and constituents better. We applaud the SBA and its administrator for their obvious hard work and clear analysis of the real and practical obstacles facing the agency on a daily basis. Many of these obstacles are statutory and would be corrected by the passage of H.R. 4297. We hope the Committee will give the agency the assistance and cooperation it needs to continue to reshape and improve itself.

I want to thank you for the opportunity to be here and speak about this nation's most critical programs for the development of entrepreneurs and the small business community. If there are questions I can answer or other issues I can address, I would be happy to do so.

TESTIMONY OF FRANK HOY,

CENTRAL EUROPEAN SMALL BUSINESS ENTERPRISE

DEVELOPMENT COMMISSION

Mr. Chairman and members of the committee, thank you for inviting me to present testimony to you regarding the Central European Small Business Enterprise Development Commission. My name is Frank Hoy. I am Dean of the College of Business Administration at the University of Texas at El Paso. Today I am here in my role as Chairman of the Central European Commission. I would like to describe the current status of Commission activities and respond to any questions you may have.

The Commission was conceived by Congress and established by Public Law 101-515 in November, 1990. It was created to assist Hungary, Poland and what was then Czechoslovakia in their transition to market economies by developing self-sustaining programs providing management and technical assistance to small businesses. The members of the Commission are Dr. Dan Fogel, representing the American Association of Universities, Irene Fisher, representing Small Business Administration, and myself, representing the Association of Small Business Development Centers.

In Fiscal Year 1991, the Commission was charged with three tasks:

1. to determine the needs of small businesses in the designated Central European countries for management and technical assistance;

2. to evaluate appropriate Small Business Development Center - programs which might be replicated in order to meet the needs of each of such countries, and

3. to identify and assess the capability of educational institutions in each such country to develop a Small Business Development Center type program.

These tasks were completed and reports submitted to the Commission by October, 1991. A summary of FY91 accomplishments is attached to this testimony.

In Fiscal Year 1992, the Commission was required to review the recommendations of the contractors, then formulate and contract for the establishment of a three-year management and technical assistance demonstration program. The Commission followed through on this mandate, identifying three host institutions for demonstration programs in Poland and two for programs in Hungary. Due to political instability in Czechoslovakia, the Commission was unsuccessful in identifying an institution in which we had sufficient confidence to select for a demonstration program. As you know, at the end of 1992, Czechoslovakia split into the Czech

Republic and the Slovak Republic. Directors for the centers in Hungary and Poland were hired and brought to the United States for six weeks of intensive training at the South Carolina Small Business Development Center. A summary of FY92 accomplishments is attached.

All five centers were officially opened in November, 1992. Thus, they have now been serving clients for approximately eighteen months. Although the centers have been adapted to their respective countries and cultures, they sufficiently resemble U.S. SBDCs for the Commission to require our contractors to use reporting standards mutually devised by the SBA and the ASBDC. Summaries of selected center activities are attached.

On July 20, 1993, Erskine Bowles, Administrator of the U.S. Small Business Administration, testified before this Committee in support of the Commission. An excerpt from his testimony is attached. I have also attached two letters from individuals who have had direct contact with the centers in Hungary and Poland as examples of correspondence the Commission has received.

The Commission was charged with supporting a three year demonstration program in Central Europe. The original legislation authorized $16 million for this effort. Actual appropriations total $5 million. At the end of this fiscal year, the centers will have delivered services for two years. Speaking on behalf of my fellow Commissioners, I urge Congress to appropriate funds to the Commission for one additional year. The funds will both solidify our efforts, increasing the probability that the programs will survive the termination of U.S. funding, and will send a message to the governments of Hungary and Poland that the United States fulfills its commitments.

Finally, I want to advise you that, although we have not had sufficient funds to sponsor a program in the Czech Republic, Masaryk University in Brno has created its own small business assistance center with our encouragement. Through our contractor in Hungary, we have provided management and technical advice and some financial support. We continue to seek support for Masaryk University and our five centers from numerous sources.

Thank you, Mr. Chairman. I will be pleased to respond to any questions you or members of the committee may have.

CENTRAL EUROPEAN SMALL BUSINESS ENTERPRISE DEVELOPMENT COMMISSION: ANNUAL REPORT

Summary

The Commission's Mandate

The Central European Small Business Development Commission was established to assist Poland, the Czech and Slovak Federal Republic and Hungary in developing self-sustaining systems to provide management and technical assistance to small business owners.

Phase One: Research and Evaluation

During its first phase, in fiscal 1991, the Commission: researched the management and technical needs of small businesses in Poland, the Czech and Slovak Republic and Hungary; evaluated the programs of Small Business Development Centers (SBDCs) in the United States that could be applicable to the needs of each of the three countries; and assessed the capabilities of institutions in these countries to host and develop programs based on the Small Business Development Center model. A budget of one million dollars was appropriated for this first phase.

The Commission's research in each country gave attention to local political and economic conditions and the emergence of a private sector including small businesses. Extensive interviews were held with small business owners and managers, government officials, representatives of educational institutions, business groups, and development assistance agencies. Questionnaires administered by the Commission's study teams in each country also provided valuable insights into the views and needs of entrepreneurs.

Management And Technical Assistance Needs

The Commission identified a great and growing need for the kinds of guidance and support that could be made available through an SBDC-type program in Poland, the Czech and Slovak Republic and Hungary.

As each of the three countries shifts from a socialist economy to a market-oriented economy, progress is being made in restructuring and privatizing state-owned enterprises and in creating small businesses and entrepreneurial activities. To assist the development of small enterprises and, consequently, to enable job creation and the emergence of an entrepreneurial middle class, technical and management programs are required.

The Commission is aware of assistance being provided by the U. S. State Department, U.S. Agency for International Development, and other government agencies. PHARE (Poland and Hungary—Assistance for Reconstructing the Economy), The World Bank, European Bank for Reconstruction and Development, the British Know-How Fund and others have also recognized the important role of small business in emerging market economies. However, programs for private sector development in Central Europe have tended to concentrate on the privatization and business development of larger companies, and on the provision of financial assistance. There remains a need for technical assistance for small business, and this is the major focus of the SBDC concept.

Application Of SBDC Programs

> The Commission concluded that the SBDC experience in the United States will be extremely useful in developing programs to meet the needs of the small business communities in Poland, the Czech and Slovak Federal Republic and Hungary.

With a few modifications, some SBDC programs can be replicated for Central European situations; others can be redesigned to suit the environment and needs in a particular country or region. Small Business Development Center-type institutions in Poland, the Czech and Slovak Republic and Hungary will be called "Small Business Centers".

Potential Host Sites

> After evaluating 16 potential host sites, the Commission selected Lodz, Warsaw and Gdansk in Poland and Debrecen and Pecs in Hungary for Small Business Center demonstration projects. The Commission is continuing to assess potential sites in the Czech and Slovak Federal Republic.

The Commission also examined the capabilities of potential sponsors (governments, regional development agencies, universities, technical schools and/or business, union and agricultural organizations) and determined that consortia of organizations are the best means to institutionalize Small Business Center programs. Universities in Central European countries typically do not have the tradition of extension services or practical training for business management required to sponsor a Small Business Center independently; however, they provide tremendous resources to consortia.

The Commission's objective is to work with members of various consortia in each country to develop institutions that will enable the Small Business Centers to become self-sustaining and locally managed.

Phase Two: Implementation

On the basis of the needs assessments and research completed during fiscal 1991, the Commission is commencing with the second phase: to establish a management and technical assistance program. A budget of $1.5 million has been appropriated for this phase, enabling Small Business Centers to be established in Poland and Hungary and permitting continuing analysis in the Czech and Slovak Federal Republic.

CENTRAL EUROPEAN SMALL BUSINESS ENTERPRISE DEVELOPMENT COMMISSION: ANNUAL REPORT 1992

Summary

The Commission's Mandate

The Central European Small Business Development Commission was established in 1990 by Public Law 101-515, in accordance with Section 25 of the Small Business Act. Its mandate is to assist Poland, Hungary and the Czech and Slovak Federal Republic in developing self-sustaining systems to provide management and technical assistance to small business owners. Each of the three countries is shifting from a socialist economy to a market-oriented economy.

During fiscal year 1991, the Commission awarded contracts to undertake research and assess needs in the three countries. In each country, the contractors conducted extensive interviews with small business owners and managers, government officials, representatives of educational institutions, business groups, and development assistance agencies. The contractors researched the needs of small businesses in each country, evaluated Small Business Development Center (SBDC) programs in the United States to determine their applicability, and assessed potential host institutions for Small Business Centers (SBCs) in Poland, Hungary and the Czech and Slovak Federal Republic. The Commission's research identified substantial need for the kinds of guidance and support provided through Small Business Center programs.

Implementation in Fiscal Year 1992

During fiscal year 1992, management and technical assistance programs were established in Poland and Hungary. In the Czech and Slovak Federal Republic, site evaluations were completed for potential Small Business Centers. In all three countries, governments expressed strong support for the Small Business Center program.

In Poland, Small Business Centers were established at the Lodz Polytechnic, in Lodz; at the Gdansk Technical University, in Gdansk; and at the Polish Chamber of Commerce, in Warsaw. SBC staff were selected and trained and each site was equipped with furnishings, computers and communications equipment. In each location and in the country as a whole, the Commission's contractors worked to ensure a sound, non-partisan base of support.

To assist in the operation and overall implementation of the SBC program, a non-profit Polish Foundation was created. The Foundation ensures appropriate financial control, encourages greater Polish participation, and helps build a constituency for the SBC program after U.S. support ends. The Commission placed a full-time American Coordinator in Poland to work closely with the Foundation, SBC staff and host institutions.

In Hungary, Small Business Centers were established in Debrecen and Pecs. In both locations, the SBCs are hosted by a non-profit Foundation and local government. Initial assistance has focused on creating the formal organizations to support SBCs and establishing the internal accounting and management systems. In both cities, Foundations were chartered, Boards of Directors were established, and SBC staff were selected and trained. A Hungarian Small Business Center National Advisory Council was formed to advise the Boards of Directors, maintain relationships with the government, and provide public relations and fund raising assistance.

In the Czech and Slovak Federal Republic, the Commission's contractor identified and assessed potential host institutions for Small Business Centers, using a set of criteria developed to meet SBC needs. On-site evaluations were conducted of six institutions in five different locations. The contractor recommended potential host institutions for Small Business Centers. The Commission anticipates that funding by Congress will allow for the support of one center in 1993.

In 1993, the Commission will monitor and strengthen the Small Business Centers in Poland and Hungary and work towards the establishment of a Small Business Center in the Czech and Slovak Federal Republic (CSFR). Through the use of consultants previously involved with SBDCs in the United States, the Centers in Poland and Hungary will also receive on-site assistance to support their first year of operations. In the CSFR, assistance will focus on the definition of SBC program activities, the establishment of organizational structure, and the recruitment of a director.

Budget

The Commission's budget for its first year of operations was one million dollars. During fiscal year 1992, the budget for implementation was $1.5 million. For fiscal year 1993, the budget is $1.5 million.

**HUNGARIAN SMALL BUSINESS ADVISORY CENTERS
PROJECT FACT SHEET
(OCTOBER 1, 1993, THROUGH MARCH 30, 1994)**

Clients served: Pecs = 170 Debrecen = 135 TOTAL = 305

The client profile has remained relatively constant. About 60% of the clients have existing businesses while 40% are planning businesses. The predominant sectors are service and retail followed by firms engaged in manufacturing, agriculture, and the wholesale sectors. Two thirds of the clients are men, one third are women, most range in age from 30 to 50, and most have a technical school, college, or graduate degree.

In terms of the operations of these businesses, only 50% have any sort of balance sheet or financial records. Half of the clients intend to do their own accounting while the other half will hire either a firm or individual to do their accounting. Nearly two thirds are organized as sole proprietorships while the remaining clients are either partnerships or limited liability companies.

The main problems cited by clients often boil down to lack of capital and lack of information. These problems are followed by the collapse of traditional markets and difficulty collecting outstanding debts.

Almost all of the clients operate without any outside capital (90%) and, thus, access to capital, the analysis of their financial positions and assets, and credit make up most of the counseling provided by the Centers. This is followed by counseling sessions on business planning, marketing and promotion, complying with regulations, taxes, and contracts. If clients are in search of capital, most would use it to purchase inventory and equipment with others spending it on capital improvements or vehicles.

As far as counseling time spent, the initial visit lasts approximately one hour, a little less in Pecs and little more in Debrecen. The average time spent in one-on-one counseling is just over three hours in Pecs and just over four in Debrecen. Approximately 65% of staff time is spent counseling clients.

In addition to counseling, both Centers engage in educational or training seminars sponsored solely by the Centers or in conjunction with other local organizations. Debrecen, for instance, has engaged in a series of seminars aimed at the agricultural sector in their area. Three different seminars were held in March and 100 people attended. Pecs, on the other hand, has cosponsored management training and business planning sessions with a local trade association. In addition, they sponsored a seminar on merchandising and computer skills for business owners and managers.

The success stories related by the Centers range from assisting a company get a loan application through the bank to marketing assistance. For instance, in Pecs, a client sells energy saving systems. Before coming to the Center he had 400 orders last year. After consultations with the Center and the preparation of a marketing plan, his orders rose to 1,000 in February alone. With the help of the Center, local entrepreneurs have been able to complete loan applications and take advantage of cheaper funds supplied by Hungarian government programs or the micro-loan program sponsored by the Hungarian-American Enterprise Fund. As a result of the value added by the center to the applications, approvals have been translated into an additional 30 new jobs. Debrecen, as well, has worked out a relationship with the local banks to assist entrepreneurs with their applications. The Center's assistance thus far will create around 25 new jobs for the area. One success story involved the identification of an export buyer for goods produced in the Debrecen area. Working with the commercial staff in the Hungarian embassy in London, a buyer was found and contracts signed.

POLISH SMALL BUSINESS ADVISORY CENTERS
PROJECT FACT SHEET

Program Overview

- As of March 1994, the Centers have counseled over 1757 small business owners and entrepreneurs and have had 4302 participants attend their seminars.

- In July of 1992, our program was chosen by the US Embassy as one of only nine Polish assistance programs to present to a US Congressional Delegation.

- Representatives from our program were asked to join USAID task force on strengthening US funded SME support programs in Poland.

- As a result of the success of the program, the Eurasia Foundation funded a training course for four Ukrainians. The course, which was developed, organized and presented by Scientex and the Polish-American Small Business Advisory Foundation, trained the Ukrainians on how to establish a small business advisory center in the Ukraine.

- Scientex has been asked by the Center for International Private Enterprise (CIPE) and, on a separate occasion, by USAID to provide a representative to travel to the Ukraine to speak about the program and its applicability to the economic situation there. Also, our Warsaw and Lodz centers have hosted delegations, from Lvov, Ukraine and Kyrgystan, respectively. The delegations were seeking advice on how to establish a small business advisory program in their country.

Counseling Activities - (figures are based on a recently completed impact study/survey)

- 75% of the survey respondents felt that the service provided to them was either "Above Average" or "Excellent".

- Based upon information gathered from the respondents, it is estimated that the program has directly resulted in the creation of 600-700 full time positions and 450-550 part-time (because of the high cost (taxes, benefits, etc.) of employing a person full-time, SMEs often fill personnel needs through short-term contracts)

- Using an estimate of 600 full time and 500 part-time jobs created, savings to the Polish Government from reduced unemployment benefits equaled @ $500,000. Additionally, tax revenues increased by @ $500,000 for full time and @ $9,000 for part-time. In total, the program had a net positive effect on the Polish Government of over $1 million. (This figure does not incorporate costs associated with jobs saved by assisting troubled companies.)

Seminars

- 88% of the survey respondents stated the calibre of presentations as being "Very High" or "High".

The White House
Conference on Small Business

Foundation for a New Century

STATEMENT OF

ALAN PATRICOF

CHAIRMAN

THE WHITE HOUSE CONFERENCE ON

SMALL BUSINESS COMMISSION

BEFORE THE

HOUSE COMMITTEE ON

SMALL BUSINESS

WEDNESDAY MAY 4, 1994

1800 C St., NW Suite 1233 ★ Washington, DC 20006-4407 ★ (202) 724-0891 ★ Fax (202) 724-0903

Chairman LaFalce and distinguished members of the House Committee on Small Business, I am Alan Patricof, Chairman of the White House Conference on Small Business Commission. It is my pleasure to appear before you to report on the progress of The White House Conference on Small Business and our projected budgets for FY94 and FY95. In less than a month, we will launch a series of state and regional conferences that will culminate in the national White House Conference on Small Business to be held in Washington, D.C. from June 11-15, 1995. These conferences represent a tremendous opportunity to celebrate the accomplishments of small business owners and entrepreneurs from across the country and to move forward with new ideas and plans for the future of small business and entrepreneurship as we enter the 21st century.

The small business community has made important strides since the first White House Conference on Small Business in 1980 and the second one in 1986. These conferences have increased the awareness of small business' contributions to the global economy, and have led to the adoption of a variety of federal laws and regulations designed to improve the environment for small business.

But, much more needs to be done. Small businesses are still at a competitive disadvantage in attracting capital and in dealing with regulations and paperwork. Employee benefit costs and taxes are constant concerns. And, new issues and challenges continue to emerge. The small business community is just beginning to deal with the new opportunities in international trade and the exploding information revolution.

One way to address these new and emerging issues is to make the conference process as broad and inclusive as possible. Some of the best solutions to the problems facing the small business community will come from the men and women across the country who face these challenges every day. I am confident that we have designed a process that will provide an open forum for those ideas to be heard and then acted upon promptly by the Executive Branch and Congress.

CURRENT STATUS

First, let me update you on the current status of The White House Conference on Small Business. As you know, the state conference schedule has been released and our first state conference is scheduled for Wilmington, Delaware, on June 2nd. The Conference is in its office space and our staff is nearly at full strength. The Conference staff is conducting an extensive outreach campaign to small business owners, especially targeting women, minorities, rural businesses, hi-tech firms, and others who historically have been underrepresented or who have not participated previously in the process. At the same time, the staff has met with dozens of national, regional, and state small business organizations and trade organizations to promote conference participation. Altogether, we hope to attract 40,000 attendees throughout the state conference process.

We have received tremendous support from your Committee, the Senate Committee on Small Business, The White House, the Small Business Administration, and the General Services Administration. Your Committee staff, especially Tom Powers and Jennifer Loon, have been indispensable in offering us guidance as we organize the conferences. The SBA, through Administrator Bowles' office, its Office of Advocacy, and its regional and district offices, is providing us with invaluable support. One example of this is, in working with the Office of Advocacy, we have prepared an *Issue Handbook* that will help prepare conference participants for the state conferences.

In addition, President Clinton has issued a directive to the heads of executive departments and agencies soliciting policy initiatives on small business that they have undertaken in the past year and identifying one or two potential new initiatives that will improve the economic and regulatory climate for small businesses. We will be sitting down shortly with Administration officials to discuss their participation in the Conference process.

THE BUDGET

The legislation creating the White House Conference on Small Business authorizes $4.98 million over the course of two fiscal years. As you know, since the Commission did not become operational until FY94, no funds were expended in FY93; thus, $2.49 million was appropriated for FY94, with an additional $2.49 million to be appropriated for FY95.

This $4.98 million will not cover the entire cost of producing the 59 state conferences, at least 6 regional meetings, and the national conference. Additional funding for certain expenses of these conferences will come from the charging of modest registration fees. Also, SBA has determined that it can utilize its agency gift acceptance authority in support of the conferences where the donation will satisfy the applicable legal criteria. Gifts to SBA have already been promised or received that will enhance the conferences. For example, the cost of an opening video, an *Issue Handbook*, and a registration brochure are being provided by SBA as a result of corporate donations.

It is also worth noting that the cost of a research study -- titled, "Prospects for Small Business and Entrepreneurship in the 21st Century" -- will be provided by SBA as a result of foundation and/or corporate donations. That study is one important way this Conference will be distinguished from the 1980 and 1986 Conferences. The study will be conducted in a macro-economic fashion toward goals consistent with the purposes of the Conference, as stated in the enabling legislation. The contribution of the study will cover the historic role of small business and entrepreneurship and will identify and project those factors and forces, in both the private and public sectors, that will affect the prospects for small business and entrepreneurship in the immediate future and into the next century.

Let me emphasize that we have developed a very tight operating budget, and are committed to being fiscally responsible. We refrained from hiring staff until the need was warranted. We have decided to hold down personnel costs by hiring only thirty full-time staff, significantly fewer than the number (55) who worked on the 1986 Conference. We are relying heavily on technology, detailed federal employees, volunteers, interns, and outside contractors -- particularly small, women-owned and minority-owned firms -- for additional support. Our staff is working diligently to hold the line on all other overhead expenses in order to stay within budget.

We have been working with your Committee staff, the Senate Committee on Small Business staff, the Acting Comptroller at SBA, and the General Services Administration on accounting procedures and financial reporting requirements. We have established a financial reporting system with the Acting Comptroller at SBA that will allow us to provide financial reports upon request. Our reports will segregate expenditures of appropriated funds, income from registration fees, and receipt of financial and in-kind contributions to SBA in support of the conferences.

Following the national conference, we will prepare and submit a final financial report. This final accounting will be completed by September 30, 1995, the date the Commission ceases to exist.

As noted above, Congress has appropriated $2.49 million for our activities in FY94. However, due to our compressed conference schedule -- starting the state conferences in June of 1994 rather than in April as originally planned, and ending in June of 1995 -- only one-third of the state conferences will be held by the end of FY94. Accordingly, we do not expect to use our entire appropriation for FY94. However, since two-thirds of the state conferences, the regional meetings, and national conference will be held in FY95, we fully expect that our expenditures will exceed the $2.49 million to be appropriated for the next fiscal year.

In light of these projections, we ask for your Committee's, along with the House Committee on Appropriations', cooperation. We respectfully request that the FY94 funds that we do not spend -- that otherwise would "lapse" -- be re-allocated to us in FY95. Please note that our request would not in any way affect our bottom-line appropriation -- our total two-year appropriation would remain at $4.98 million. Our staff is prepared to work with you to identify more exactly how much FY94 money would be returned, and how much FY95 money is required.

Let me also call your attention to the projected FY94 and FY95 budgets attached to my testimony. These budgets segregate expenditures of appropriated funds, income from registration fees, and receipt of financial and in-kind contributions to SBA in support of the conferences. While you will note that those budgets total $9,148,500, we want to avoid any confusion. We are not here today to request a supplemental appropriation. We simply provide these figures in the spirit of full disclosure -- this is what we project to be our total production costs for these conferences. Naturally, in the event that we do not receive all of the necessary financial and in-kind contributions from SBA and its donors, we are prepared to scale back the production costs, accordingly.

CONCLUSION

As a venture capitalist who has been actively involved with small and growing firms most of my professional life, I have personally witnessed many of the great small-business success stories that have helped transform our economy and nation. My intent, as Chairman of the Commission, is to provide a forum to celebrate these accomplishments, inspire others to succeed, and to develop an "action plan" for the new century.

However, without the continuéd, active support of Congress and the Clinton Administration, our efforts will be for naught. We trust that both branches of government will listen to the delegates and will be willing to act immediately on their findings and recommendations.

For our part, we plan to keep you informed of the recommendations resulting from the state conferences. We suspect that some of these recommendations may merit priority attention and might be best considered prior to the conclusion of the conference process and the submission of our final report to the President and to Congress.

We look forward to working with you as the process ensues. I hope that we can count on your offices to promote the conferences and encourage small business people back home to register. Working together, we can make this White House Conference on Small Business an historic and memorable event.

This concludes my testimony. I would be happy to respond now to any questions you might have or later in writing for the hearings record. Thank you for the invitation to testify.

The White House Conference on Small Business — 02-May-94

Budget Summary — - budgsum -

Projected Appropriated Budget	4,980,000
Projected Registration Budget	1,811,500
Projected Contributions Budget	2,357,000
Total	$9,148,500

The White House Conference on Small Business
Projected Appropriations Budget for FY94

May-94
- proj9495 -

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JUL	AUG	SEP	TOTAL FY94
Salaries	5,456	12,052	23,314	39,484	49,301	55,892	70,323	96,627	102,987	98,306	107,668	102,987	764,397
Benefits (26%)	1,419	3,134	6,062	10,266	12,818	14,532	18,284	25,123	26,777	25,560	27,994	26,777	198,743
Termination Payout + Adjustments								4,500					4,500
SUBTOTAL PERSONNEL	6,875	15,186	29,376	49,750	62,119	70,424	88,607	126,250	129,764	123,866	135,662	129,764	967,640
Rent	0	3,375	6,750	6,750	6,750	9,208	11,667	11,667	11,667	11,667	11,667	11,667	102,833
Print/Design	0	2,150	2,150	2,150	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	40,850
Technology	0	0	30,000	0	0	18,000	40,000	23,361	0	0	0	0	111,361
Phone/Fax	0	1,085	1,085	1,085	1,085	1,500	1,500	2,000	2,500	2,500	2,500	2,500	19,340
Postage/Delivery	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Subscriptions	0	0	364	364	364	364	364	364	2,322	1,701	1,701	1,701	9,609
Office Supplies	0	0	5,000	2,500	5,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
SUBTOTAL OFFICE COST	2,500	9,110	47,849	15,349	19,999	38,372	62,831	46,692	25,789	25,168	25,168	25,168	343,993
Commissioners Travel	668	5,868	668	668	5,868	668	668	5,868	2,748	3,788	3,788	7,428	38,691
Advance Travel	0	0	0	0	0	0	0	0	12,250	17,780	9,800	7,980	47,810
Conference Travel	0	0	0	0	0	0	0	0	25,200	35,280	20,160	15,120	95,760
Local Travel & Expenses	759	759	759	759	759	759	759	759	759	759	759	759	9,113
Hotel Deposits	0	1,000	1,000	1,000	1,000	0	0	0	0	0	0	0	4,000
Other Travel	0	0	0	0	0	0	0	0	0	0	0	0	0
SUBTOTAL TRAVEL	1,427	7,627	2,427	2,427	7,627	1,427	1,427	6,627	40,957	57,607	34,507	31,287	195,374
GSA Support			8,750			8,750			8,750			8,750	35,000
SBA Support				100,000									100,000
Consultants	0	2,892	14,059	18,159	28,004	14,612	15,212	4,767	7,767	4,767	6,267	4,767	121,273
SUBTOTAL SUPPORT SERVICES	0	2,892	22,809	118,159	28,004	23,362	15,212	4,767	16,517	4,767	6,267	13,517	256,273
Other Costs	0	0	0	0	0	0	0	2,182	27,183	2,182	2,182	2,182	35,911
Production Cost	0	0	0	0	0	0	0	100,000	78,000	78,000	52,000	39,000	347,000
TOTAL FY94	10,802	34,815	102,461	185,685	117,749	133,585	168,077	286,518	318,209	291,589	255,785	240,917	2,146,191

The White House Conference on Small Business
Projected Appropriations Budget for FY95

May-94
- proj9495 -

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JUL	AUG	SEP	TOTAL FY95
Salaries	98,859	103,777	104,073	104,978	95,765	110,256	96,303	111,305	106,659	48,162	43,735	39,932	1,063,804
Benefits (26%)	25,703	26,982	27,059	27,294	24,899	28,667	25,039	28,939	27,731	12,522	11,371	10,382	276,589
Termination Payout + Adjustments				2,000					80,000	20,000		50,000	152,000
SUBTOTAL PERSONNEL	124,562	130,759	131,132	134,272	120,664	138,923	121,342	140,244	214,390	80,684	55,106	100,314	1,492,393
Rent	11,667	11,667	11,667	11,667	11,667	11,667	11,667	11,667	9,169	6,671	6,671	6,671	122,515
Print/Design	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	1,075	1,075	45,150
Technology	0	0	0	8,500	0	0	0	0	0	0	0	0	8,500
Phone/Fax	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	1,000	1,000	27,000
Postage/Delivery	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Subscriptions	1,701	1,701	1,701	1,701	1,701	1,701	1,701	1,829	1,829	364	364	364	16,657
Office Supplies	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	1,500	1,500	28,000
SUBTOTAL OFFICE COST	25,168	25,168	25,168	33,668	25,168	25,168	25,168	25,296	22,798	18,835	13,110	13,110	277,822
Commissioners Travel	668	3,268	4,308	3,268	10,548	4,828	3,788	6,388	11,998	668	668	668	51,060
Advance Travel	0	15,330	17,850	17,850	23,940	22,120	15,400	14,700	0	0	0	0	127,190
Conference Travel	0	30,240	30,240	35,280	40,320	40,320	25,200	30,240	0	0	0	0	231,840
Local Travel & Expenses	759	759	759	759	759	759	759	759	759	759	759	759	9,113
Hotel Deposits	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Travel	0	0	0	0	0	0	0	0	0	0	0	0	0
SUBTOTAL TRAVEL	1,427	49,597	53,157	57,157	75,567	68,027	45,147	52,087	12,757	1,427	1,427	1,427	419,203
GSA Support	0	0	9,450	0	0	9,450	0	0	9,450	0	0	9,450	37,800
SBA Support	100,000	0	0	0	0	0	0	0	0	0	25,000	0	125,000
Consultants	4,767	4,767	4,767	6,267	4,767	4,767	4,767	4,767	4,767	7,892	2,892	2,892	58,079
SUBTOTAL SUPPORT SERVICES	104,767	4,767	14,217	6,267	4,767	14,217	4,767	4,767	14,217	7,892	27,892	12,342	220,879
Other Costs	2,183	2,183	2,183	2,183	2,183	2,183	2,183	2,183	2,183	2,183	2,183	2,183	26,192
Conference Production	0	69,531	49,665	79,464	79,464	79,464	39,732			0	0	0	397,320
TOTAL FY95	258,107	282,004	275,521	313,011	307,812	327,981	238,338	224,577	266,345	111,021	99,718	129,376	2,833,809
TWO YEAR TOTAL	268,908	316,819	377,982	498,695	425,561	461,566	406,415	511,094	584,554	402,610	355,503	370,293	4,980,000

White House Conference on Small Business
Projected Registration Budget
based on Event Budget 28 April 94

(1) Revenue for state conferences is based on 50% pre-registration, 50% on-site registration
(2) Room charges, when charged on a sliding scale, are based on the lowest bracket of rooms taken
Meal costs, when a range is given by a hotel, are based on the highest price.
(3) No state taxes are included.
(4) Washington DC and Baltimore are estimates, exact figures not available.
(5) $122,690 of the state registration fees will be used to defray meeting-room related costs of the state conferences (Costs that would otherwise be underwritten by appropriated funds)

Code Location	Part.	Revenue	Hotel Cost - Registration Money: Rooms	Meals	Carry Over	Cum
1 Wilmington, DE	300	13,500	1,500	6,284	5,717	5,717
2 Nashua, NH	350	15,750	1,300	8,787	4,663	10,379
3 Casper, WY	200	8,000	540	3,105	5,355	15,734
4 Milwaukee, WI	500	22,500	1,000	14,616	6,884	22,618
5 Billings, MT	150	6,750	1,150	2,234	3,366	25,984
6 Boise, ID	250	11,250	2,300	5,689	3,261	29,245
7 Sioux Falls, SD	250	11,250	470	4,399	6,381	35,626
8 Bismarck, ND	300	13,500	0	3,709	8,791	45,418
8 Minneapolis, MN	500	22,500	8,250	11,918	2,332	47,750
10 Charleston, WV	350	15,750	2,700	8,756	4,294	52,044
11 Columbus, OH	700	31,500	1,700	13,195	16,605	68,649
12 Des Moines, IA	400	16,000	1,540	7,441	9,019	77,668
13 Salt Lake City, UT	450	20,250	0	10,686	9,584	87,232
14 Omaha, NE	500	22,500	8,000	13,275	3,225	90,457
15 Wichita, KS	400	18,000	1,125	10,273	6,602	97,059
16 Springfield, IL	550	24,750	4,350	11,983	8,436	105,496
17 Indianapolis, IN	550	24,750	1,275	14,157	9,316	114,814
18 Louisville, KY	500	22,500	750	11,431	10,319	125,133
19 San Juan, PR	350	15,750	4,900	13,718	(2,868)	122,265
Subtotal FY94	7,550	339,750	40,850	176,635	122,285	
20 Burlington, VT	250	11,250	900	5,664	4,888	126,951
21 Portland, ME	350	15,750	1,000	11,200	3,550	130,501
22 Danvers, MA	800	36,000	6,700	24,991	4,309	134,810
23 Anchorage, AK	200	8,000	1,000	6,440	1,560	136,370
24 Providence, RI	350	15,750	1,430	6,395	5,925	142,295
25 Honolulu, HI	300	13,500	1,125	12,575	(200)	142,095
26 Cromwell, CT	600	27,000	6,200	15,760	5,040	147,135
27 Washington, DC	600	27,000	5,000	13,800	8,200	155,335
28 Virginia Beach, VA	600	27,000	0	12,765	14,235	169,570
29 King of Prussia, PA	800	36,000	1,500	25,394	9,106	178,676
30 Pittsburgh, PA	800	36,000	1,500	33,826	674	179,351
31 Buffalo, NY	750	33,750	2,000	22,815	8,935	188,286
32 Nashville, TN	600	27,000	5,000	18,479	3,521	191,807
33 New York, NY	1,200	54,000	10,000	77,880	(33,880)	157,927
34 Baltimore, MD	650	29,250	5,000	20,305	3,945	161,872
35 Columbia, SC	600	27,000	600	14,356	12,044	173,916
36 Atlanta, GA	550	24,750	2,500	22,253	(3)	173,913
37 Raleigh, NC	800	36,000	2,400	19,116	14,484	188,397
38 Birmingham, AL	500	22,500	2,400	14,303	5,797	194,194
39 Jacksonville, FL	600	27,000	4,000	16,213	6,787	200,980
40 Miami, FL	600	27,000	1,320	17,311	8,369	209,350
41 Jackson, MS	400	18,000	2,500	8,694	6,806	216,156
42 New Orleans, LA	450	20,250	4,000	13,268	2,982	219,138
43 St. Louis, MO	500	22,500	1,200	14,868	6,432	225,570
44 Oklahoma City, OK	300	13,500	475	8,953	4,072	229,642
45 San Antonio, TX	1,000	45,000	1,400	30,654	12,946	242,588
46 Little Rock, AR	400	18,000	5,100	8,855	4,045	246,633
47 Arlington, TX	1,000	45,000	2,200	24,940	17,860	264,493
48 Alburquerque, NM	300	13,500	2,150	7,677	3,474	267,967
49 Phoenix, AZ	600	27,000	5,163	18,779	3,059	271,026
50 Las Vegas, NV	200	9,000	2,650	6,494	(144)	270,882
51 Los Angeles, CA	1,500	67,500	5,000	84,600	(22,100)	248,782
52 San Francisco, CA	1,000	45,000	6,750	30,031	8,219	257,001
53 Seattle, WA	700	31,500	8,000	23,548	(48)	256,953
54 Portland, OR	400	18,000	2,675	14,157	1,168	258,121
55 Denver, CO	600	27,000	3,200	14,918	8,883	267,004
56 East Brunswick, NJ	800	36,000	10,000	33,748	(7,748)	259,256
57 Cleveland, OH	700	31,500	3,200	21,435	6,865	266,121
58 Chicago, IL	1,000	45,000	5,000	43,290	(3,290)	262,831
59 Dearborn, MI	800	36,000	10,700	25,441	(141)	262,690
Other costs for state conferences			122,690		(122,690)	140,000
Subtotal State	32,700	1,471,500	306,478	1,025,022	140,000	
R1	167	6,667	18,000	12,000	(23,333)	116,667
R2	167	6,667	18,000	12,000	(23,333)	93,334
R3	167	6,667	18,000	12,000	(23,333)	70,000
R4	167	6,667	18,000	12,000	(23,333)	46,667
R5	167	6,667	18,000	12,000	(23,333)	23,334
R6	167	6,667	18,000	12,000	(23,333)	0
Subtotal Regional	1,000	40,000	108,000	72,000	(140,000)	
NT	2,000	300,000	50,000	250,000	0	0
Subtotal FY95	28,150	1,471,750	423,628	1,170,387	(122,265)	
TOTAL FY94 - FY95	35,700	1,811,500	464,478	1,347,022	0	0

The White House Conference on Small Business
Projected Receipt of Financial and In-kind Contributions
to SBA in support of the Conference

02-May-94
- donbudg -

Gift	Amount	Donor	Donation
Opening Video	$50,000	AT&T	$50,000
Registration Brochure	$18,875	IBM	$30,000
Issue Handbook (1)	$26,125	Pacific Bell	$5,000
		Nynex	$10,000
Issue Handbook (2)	$30,000		
Small Business Study	$485,000		
National Conference	$413,000		
Information/Technology Exhibits	$1,114,000		
Electronic Voting/Registration	$100,000		
Delegate Electronic Communication	$120,000		
Total	$2,357,000		

NATIONAL BUSINESS OWNERS ASSOCIATION, INC.

STATEMENT OF

MR. THOMAS B. RUMFELT
CHAIRMAN
THE NATIONAL BUSINESS OWNERS ASSOCIATION

ON

SBA PROGRAMS AND ACTIVITIES

BEFORE

THE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

MAY 4, 1994

1200 Eighteenth Street • Northwest • Suite 500 • Washington, D.C. 20036
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Mr. Chairman, Ranking Republican Meyers, and Members of the Committee, my name is Thomas B. Rumfelt, and I am Chairman of the National Business Owners Association. I am accompanied by Mr. J. Drew Hiatt, Executive Vice President and Director of Government Affairs. We appreciate very much the opportunity to present our views on key programs and activities at the U.S. Small Business Administration and how they assist America's nearly 22 million small business men and women. Furthermore, we welcome the opportunity to offer our comments on legislation, introduced at the request of the Clinton Administration, to amend the Small Business Act to make changes to various programs and to permit the prepayment of debentures by certified development companies. Because we have not formulated positions on all issues addressed in the Administration-sponsored legislation, we will withhold commenting on various provisions at this time.

The National Business Owners Association represents nearly 8,000 small business owners, and has an active and rapidly expanding membership. Its philosophy is based on the belief that a vibrant and robust private sector and a strong and competitive free enterprise economy are essential to create and increase economic growth, opportunity, jobs, and prosperity for all Americans. NBOA vigorously represents the interests of its members before Congress as well as federal, state, and local government. It also works to influence and enact national policies that promote economic growth and entrepreneurship. As part of its efforts to advocate the adoption of beneficial laws and regulations, NBOA consistently communicates the concerns and legislative priorities of business owners to lawmakers, government officials, the public, and the media

We commend you, Mr. Chairman, for convening this hearing today to address ways to assist small business owners. Even as we speak, U.S. Small Business Week is underway. Each year we celebrate this observance by paying tribute to the special men and women of this nation -- the small business owners -- who have helped build and continue to help build America. As we recognize their achievements and express appreciation for their contributions, it strikes me that our members and other small business owners across the country owe you, Mrs. Meyers, and the Members of this Committee their gratitude for the leadership, support, and assistance you have provided over the years.

We look to you for leadership on the issues that concern and affect our businesses, our employees, and our families. We depend on you for guidance and assistance in solving problems that confront us. And we welcome your help in expanding opportunities that we can pursue. You have done much to promote and protect our interests. I commend you for all have done for small business owners and all you will do for them.

You recognize that American entrepreneurs and small business owners are the moving force of our economy today. They are the source of its vitality, its dynamism, and its growth. And they are a major contributor of new jobs and prosperity for Americans. Many rightfully attribute our continued economic success and good fortune to the faith, determination, ingenuity, and hard work of the small business men and women of America. But as small business owners will tell you it is also because of the American spirit of free enterprise that is alive and at work in them. As an entrepreneur, I must agree.

The spirit of American free enterprise will not die because it is a spirit that cannot be destroyed. It embodies all the ambitions and aspirations of a free people who have placed service to others above the narrow interests of self. It is the eagerness of those who want to do good for their customers, their friends, their families. It is the belief that people can go as far and as high as their God-given talents and hard work will take them. It is the desire to create something better and contribute something of value to the economy, the community, and the country. It is the freedom to dream and the courage to dare -- to live and do as one dreams. It is toughness in the face of adversity and resilience in the wake of disappointment. And it is the belief that even the smallest contribution can make a huge and lasting difference for good in the lives of many.

There can be no question about the contributions of small business owners and their importance to the country. And there can be no question about the difference they make in the small towns and big cities that dot this country. As an entrepreneur, I have seen that difference at work and the power it has to bring about positive change. And that is why, together, we must do everything we can to ensure that small business -- and the spirit of free enterprise -- which has done so much for this country over the last two centuries will continue to do just as much over the next two. That is why this Committee is so important and will remain so.

I believe small business owners not only need, but deserve, to have a strong voice in Washington. Our members look to the National Business Owners Association as their strong voice in the nation's capital. They want to be heard on the issues that concern them and have a say in the formulation of policies that can affect their businesses and their bottom lines. They are concerned about higher taxes and federal spending, increased government regulation, mounting paperwork, and new employer mandates. Thanks to this Committee, they have a strong voice in Congress. And thanks to the U.S. Small Business Administration, they have that same voice in government.

We support a strong and independent SBA as the sole federal agency whose single mission it is to assist small business owners. The effectiveness of its programs and activities must be judged on the merits of whether they truly serve small business owners in furthering their business objectives, helping solve problems, and creating opportunities. It is within this context that we would like to comment on some of the proposals recommended in the legislation requested by the Administration.

H.R. 4297: Small Business Administration Amendments of 1994

Microloan Program

Capital is the lifeblood of commerce. Small business owners and aspiring entrepreneurs know that capital is in high demand but often in seemingly short supply when it comes to providing financing for small firms. That is why access to capital remains a top concern of small business owners. In a recent survey by *Entrepreneur Magazine*, small business owners ranked access to capital as the top obstacle facing them today.

Since its inception in 1992, the SBA Microloan Program has been an effective vehicle for meeting the growing demand for small-business startup capital. This program was developed for those times when a small loan can make a difference. Under this program, loans range from less than $100 to a maximum of $25,000 but average about $10,000. SBA has made funds available to non-profit organizations for the purpose of lending to small businesses. These organizations can also provide management and technical assistance.

Virtually all types of businesses are eligible for a microloan. To be eligible, a business must be operated for profit and fall within size standards set by the SBA (most businesses are well within the standards). Money borrowed under this program can be used for the purchase of machinery and equipment, furniture and fixtures, inventory, supplies or used as working capital. Loan funds cannot be used to pay existing debt. A microloan must be repaid on the shortest term possible - no longer than six years - depending on the earnings of the business. The interest rates on these loans are competitive and based on the cost of money to the intermediary lender. A loan applicant must demonstrate good character, enough management expertise and commitment for a successful operation, and show that there is a reasonable assurance that the loan will be repaid. Each non-profit lending organization has its own collateral requirements. In most cases, the personal guarantee of the business owner is also required.

The Clinton Administration has requested additional authority to expand the Microloan Program to increase the participation of other eligible lenders. Specifically, it would like to guarantee up to 100 percent of individual loans made by participating lenders in ten urban areas and by ten rural Microloan intermediary lenders who participate in the Microloan Program. Participating lenders may be private sector for-profit corporations, non-profit organizations, including, but not limited to, regulated lenders, insurance companies, pension funds, trusts, and foundations as well as other entities deemed acceptable to the SBA. This will enable the SBA to evaluate whether the expansion of this program as contemplated will boost lending activity.

The SBA also seeks increased authority to urge participating lenders to form lending alliances for the purpose of creating loan fund pools to make individual loans to intermediary lenders approved under SBA's authority. It would like to raise from 110 to 200 the ceiling on the number of Micro lenders to ensure better access to capital in underserved areas, and to grant authority to the SBA Administrator to authorize new lenders. Under current authority, the SBA can approve up to $1,250,000 in loan assistance per state. The Administration would like to increase that amount to $1,750,000 to accommodate new loan demand in various states. Finally, SBA would like to delete the current limitation on the number of intermediaries per state. Instead, it would impose a limitation of $5 million in SBA-backed loans to be made in any given state.

Mr. Chairman, we have no objection to these proposed changes and support their adoption.

Export Loan Program

If we are to succeed economically at home, we must compete and win abroad. America must look beyond its borders for new customers and new markets. Selling abroad is no longer a luxury, it is an economic necessity because 95 percent of the world's population lives outside the United States. Each year, the U.S. population increases by two million, but the rest of the world adds 100 million. That is why we must ensure that American small business owners are positioned to take advantage of the trade opportunities this growth offers.

Our economy already depends on trade. As Treasury Secretary Lloyd Bentsen has pointed out, one in 13 American jobs depends on exports, and those are typically higher paying jobs. Exports create jobs. In fact, the U.S. Department of Commerce estimates that every $1 billion in U.S. exports creates or supports about 20,000 American jobs.

Today, small business owners are global traders. The U.S. Small Business Administration estimates that small firms account for more than three-quarters of all firms that export. According to John Naisbitt, author of *Megatrends*, companies with 19 or fewer employees account for half of all U.S. exports. Conversely, only 7 percent of U.S. exports are generated by companies with more employees.

More of the world's nations are opening their doors for business, and small firms will have increased business opportunities to pursue. The North American Free Trade Agreement will provide new economic opportunities for the United States as a whole. The trade pact will bring Mexico into the free trade zone that already links the U.S. and Canada, creating the world's largest market -- a $6.5 trillion market with nearly 370 million people. And the recently concluded world trade -- or GATT -- agreement is expected to spur increased trade by reducing or eliminating trade barriers that shut out American goods and services. To seize these new opportunities, small business must not only be prepared, they must be capable of financing export sales.

The Clinton Administration is requesting authority to raise the maximum loan guarantee amount on an Export Revolving Line of Credit to make it consistent with other federal and state export finance programs. It is also seeking to encourage International Trade Loans of $155,000 or less by removing unnecessary prohibitions on such loans. SBA would like to guarantee standby letters of credit and have greater flexibility in making working capital loans under the International Trade Loan program.

Mr. Chairman, we have no objection to these requested modifications and urge their adoption.

Procurement Automated Source System (PASS)

The SBA's Procurement Automated Source System (PASS) is a directory of small suppliers of goods and services. Government procurement officers as well as corporate purchase agents use PASS to identify small businesses that can perform work or provide needed services. This is an effective way for a small firm seeking a government or private sector prime- or subcontract to expand its marketing efforts -- at no additional cost.

For many small businesses, PASS is their gateway to the lucrative federal market. The federal government buys $200 billion in goods and services each year, 75 percent by the Pentagon alone. It awards 20 million contracts annually. There are more than 300,000 vendors currently doing business with the federal government, but there is room for more. That is where PASS can help small business owners and does.

The Clinton Administration would like to expand the authority of SBA's Procurement Automated Source System to permit the capture and storage of information on large corporations. Under current authority, only the records of small businesses can be maintained in the system. Adding large corporations (on the some 4,000 or more that can do business with the federal government) to the database, according to SBA, would assist federal agencies and prime contractors who want to use PASS as a primary vendor file. Furthermore, the Administration states, this change would allow PASS to play a more significant role in the government-wide electronic commerce and electronic data interchange initiatives.

Mr. Chairman, we have some reservations with regard to this proposal. First, PASS was intended for the exclusive use and assistance of small business and was appropriately placed under the authority of the U.S. Small Business Administration. Now, the Administration would like to add large businesses so that PASS can be used as the chief vendor file. The recommendation does not appear to make any provision for the additional cost burden associated with such a change. Is the SBA to cover all costs for adding large businesses (i.e. data entry and maintenance, etc.) or can these expenses be provided for on a cost-sharing basis or through the imposition of fees that can be assessed for work performed for other federal agencies as it relates to large businesses? Until these and other concerns are addressed, we will withhold our support for this change.

Women's Business Ownership Program

There are roughly 6.5 million small enterprises with fewer than 500 employees that are owned or controlled by women in the United States. Today, women are forming small businesses at nearly twice the rate of men. The U.S. Small Business Administration anticipates that women will own half of all businesses in America in the 21st century. Women small business owners are creating new jobs as they contribute to a stronger and more prosperous economy.

For all their remarkable gains, women small business owners still face obstacles. Although there has been some progress on obtaining needed capital, many still have trouble raising money. For example, according to one survey, more than half of all women business owners used credit cards for short-term financing during 1992. Women have also lagged in obtaining their share of business. Data from 1987, the latest available, show women-owned businesses, which then accounted for 27 percent of all companies, with only 4.5 percent of all business receipts. Women also garner only 1.5 percent of the $200 billion the federal government spends on goods and services.

Since 1979, the Office of Women's Business Ownership within the U.S. Small Business Administration has been a strong champion of women-owned small firms and has done much to promote their interests and development through its programs and activities.

The Clinton Administration seeks authority to establish a permanent Office of Women's Business Ownership within the SBA. We support this request.

Cosponsorships with For-profit Companies

Public-private sector partnerships are a cost-effective means of leveraging the resources of government and business to achieve worthwhile and mutual objectives. Over the years, the U.S. Small Business Administration has cosponsored several events and activities with private companies designed to assist small business owners. These have included training seminars and publications on a wide range of topics of use to small business.

At present, the SBA is operating under authority to participate in cosponsorships that will expire soon. The Clinton Administration would like to permanently authorize the SBA to conduct cosponsorships with private companies.

Mr. Chairman, we support this request.

Authority to Sell SBA Products and Publications

The U.S. Small Business Administration offers a storehouse of useful products and publications that are intended to advise and assist small business owners. Lacking specific funding authority to offset the cost of business development publications and products, SBA relies on voluntary contributions from small business owners who receive these items. About one-third of the orders for these products are unaccompanied by contributions. The Clinton Administration is seeking authority to allow the SBA to sell the publications and products it develops. Making this change, according to the SBA, would shift the cost to those who receive the products and publications.

Mr. Chairman, as you know, this issue has come before the Committee already. In my view, I do not believe that most small business owners would object to paying a nominal fee for many of the products and publications produced by the SBA. However, when they consider they are already supporting the development of those products and publications with their tax dollars, they have difficulty comprehending why they must pay for the same product or publication twice. We have some reservations about this proposal, and would ask the Committee to examine it more closely before granting authority of any kind.

Financial Assistance Programs

The SBA's financial assistance programs are the flagship of agency programs. They are an important source of startup and expansion capital for individuals who encounter difficulty in obtaining loan funds. In many cases, SBA loans with a government-backed guarantee have been helpful in overcoming lenders' reluctance to provide loan assistance to small business owners and would-be entrepreneurs.

Each year more than 700,000 new small businesses are launched. With adequate financing and assistance, many of these companies will not only survive but thrive. That is why SBA's small-business financing programs are so critical as they can help meet the growing demand for capital.

The Administration has requested additional loan guarantee authority to meet rising demand for its loan assistance programs. In addition, it has undertaken several new initiatives to increase access to its lending program for borrowers, especially minorities and women.

For example, the GreenLine is a revolving-loan guarantee program to help small business owners. This new program, according to the SBA, is expected to generate $1 billion in financing to small businesses in its first year alone. GreenLine is quite different from programs that the SBA has established over the years. Its aim is to satisfy the "true credit needs" of a small business. SBA has traditionally offered a series of intermediate to long-range fixed term loans in the past. The new initiative is more risky -- guaranteeing revolving loan credit lines of as much as $750,000 covering 75 percent of the loan for as many as five years, bearing an interest rate of nearly 2.75 percentage points above the prime rate.

"Low Doc" is a low documentation loan program. As its name implies, its purpose is to reduce the paperwork required on loan requests up to $100,000. The Women's Pre-Qualification Pilot Loan Program would allow women small business owners to submit their loan applications to the SBA for review and comment prior to turning them in to a lender. The Small Loan Express Program would enable lenders to use their own application forms for loans guaranteed by the SBA.

Mr. Chairman, based on the information presented about these new loan programs, I believe we could support the Administration's request. With respect to the overall authorization levels for SBA loan programs, we will withhold comment until we can review some of the assumptions underlying the request for additional authority.

H.R. 4298: 503 Debenture Prepayments

Since its inception in 1981, the Certified Development Company Program has been one of the most effective of all SBA programs. We commend you, Mr. Chairman, for sponsoring the legislation that created this important program. The CDC program has been a source of long-term, fixed rate "bricks and mortar" capital enabling small businesses to invest in industrial and commercial buildings and to buy machinery and equipment. This program has helped many small firms expand and grow. Over the years, certified development companies have arranged billions of fixed-asset financing for thousands of small business. These investments have created or helped retain thousands of American jobs.

In 1987, the 503 program was replaced with the 504 program. As a result of this substitution, several 503 loans remain that carry interest rates as high as 15.7 percent. Many borrowers would like to prepay their loans and take advantage of the current low interest rates. However, the prepayment penalty is so high that they must continue to carry these loans on the books. This penalty is a huge obstacle for those borrowers who want to expand their businesses and create more jobs.

The Clinton Administration would like to relieve small business borrowers of this high prepayment burden by allowing them to repay under the more favorable terms available under the 504 program. Its request would also make other necessary changes to the existing program to ease prepayment terms. We would recommend the elimination of all prepayment penalties as they relate to loans made under the 503 and 504 programs.

Mr. Chairman, we have no objection to the Administration's request and believe that its adoption would bring needed relief to thousands of small business borrowers who are trapped in higher loans.

We appreciate this opportunity to offer our views on important programs and activities at the U.S. Small Business Administration. In particular, we welcome the opportunity to comment on legislation, introduced at the request of the Clinton Administration, to amend the Small Business Act to make changes to various programs and to permit the prepayment of debentures by certified development companies. We will continue to carefully evaluate recommended modifications and to determine whether other changes in SBA programs are necessary to improve service and assistance to the nation's nearly 22 million small business owners. Mr. Chairman, we look forward to working with you, Mrs. Meyers, and the Members of this Committee over the coming months to strengthen the U.S. Small Business Administration and its programs.

Thank you. I will be pleased to respond to any questions or comments you may have at this time.

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF

MARY JEAN RYAN

ASSOCIATE DEPUTY ADMINISTRATOR

FOR ECONOMIC DEVELOPMENT

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

MAY 4, 1994

Good morning, Mr. Chairman and Members of this Committee. I appreciate your invitation to testify this morning about two ongoing programs related to the work of the Small Business Administration.

My statement will highlight some of the goals and recent accomplishments of both the Central European Small Business Enterprise Development Commission and the National Women's Business Council. SBA recognizes the significant contribution that these commissions have made to assisting small enterprises owned by women in the United States and in developing an entrepreneurial culture and infrastructure in the emerging market economies of Eastern Europe. However, SBA is faced with a number of very difficult budget decisions and choices for fiscal year 1995, and in many program areas we have had to eliminate all or part of valued programs and activities. Given these budgetary constraints, SBA was unable to request funding for all of the current programs which have merit. We do feel that our FY 1995 budget request responds to the needs of women-owned small businesses and those who need assistance in international trade.

CENTRAL EUROPEAN COMMISSION

As you know, the Central European Small Business Enterprise Development Commission was established in November, 1990 as an independent Commission reporting directly to Congress under Public Law 101-515. The Commission's mandate is to assist Poland, Hungary, and the Czech and Slovak Federal Republic (now the Czech Republic and the Slovak Republic) in the development of self-sustaining small business development centers. These development centers would be designed to provide management and technical assistance to small business owners during the initial years of transition from socialist economies to market-oriented economies.

More specifically, the Commission was given two primary responsibilities. First, it was directed to contract for studies in these areas to determine the needs of small businesses, to evaluate Small Business Development Center (SBDC) programs in the United States which could be replicated, and to identify prospective host institutions within the three target countries. Second, the Commission was to establish a three-year management and technical assistance demonstration program.

To date, the results of the Commission's work have been impressive. A brief overview of the Commission's key accomplishments since 1990 includes the following:

During fiscal year 1991, the Commission awarded contracts to undertake research and assess the management and technical needs of small businesses in the three countries. The contractors evaluated the applicability of the American small business development model to these countries. This research indicated a substantial need for the types of programs provided by our Small Business Development Centers in the United States.

Also during fiscal year 1991, the Commission identified potential locations for Small Business Centers (SBC) in Poland, Hungary, and the Czech and Slovak Federal Republic, and evaluated local institutions that could host the SBC program. Sites were selected that showed promise of responding quickly to small business needs and being able to support the work of the Small Business Center (SBC) program after the U.S. program ended.

During fiscal year 1992, the Commission established management and technical assistance programs at three SBCs in Poland and two SBCs in Hungary. The Commission selected and trained staff at each location, and equipped each site with furnishings, computers, and communications equipment. Although the Commission evaluated potential SBC locations in the Czech and Slovak Federal Republic, it postponed final site selection until fiscal year 1993 because of the fluidity of the country's political situation.

In fiscal year 1993, the Commission focused on monitoring and strengthening the Small Business Centers in Poland and Hungary, while working toward the establishment of a Small Business Center in the Czech Republic.

With the Commission's assistance over the past three years, the importance of small business and the need to support small business politically and financially is a message that has reached decision makers in all three countries, thus fulfilling the Commission's original mandate.

Since its inception in 1990, the Commission has received its funding through the SBA's annual appropriations bill. Beyond this, the SBA has no formal (i.e. official) relationship with the Commission, although the enacting legislation provides for the appointment by the SBA Administrator of one member of the three member Commission. The Commission's budget for fiscal 1991, its first year of operation, was $1 million. For fiscal years 1992 and 1993, the budget for implementation was $1.5 million per year. In fiscal year 1994, the Commission received $1.091 million dollars.

As you are aware, SBA did not request funding for the Commission in its fiscal year 1995 budget. SBA certainly acknowledges that there are many good reasons which argue in favor of funding the Commission in FY 1995. However, in putting together its FY 1995 budget, SBA faced a number of very difficult budget challenges, and in many instances had to eliminate all or part of a valued program or activity. Despite the proposed cut in the Commission, I want to assure you that SBA has a very ambitious international trade agenda, much of which is outlined in the President's Export Strategy, developed by the interagency Trade Promotion Coordinating Committee (TPCC), and reflected in our proposed authorization package, which you have introduced, Mr. Chairman, as H.R. 4297. By not requesting funds for the Commission, the SBA is not backing off from its international focus. Rather, the Agency's proposed budget reflects our belief that our primary duty is to the domestic small companies which need trade assistance and financing in order to pursue international markets.

NATIONAL WOMEN'S BUSINESS COUNCIL

The second topic of this hearing is the National Women's Business Council.

In 1988, this Committee, under your leadership, held hearings on barriers faced by women owned businesses. As a result of those hearings, the National Women's Business Council was established with the passage of the Women's Business Ownership Act of 1988, Public Law 100-533. The Council was created to "ensure the full participation of women business owners in the free enterprise system by identifying and vigorously promoting their interest in ways that can be measured."

Like the Central European Commission, the National Women's Business Council is an independent entity. The Council reports directly to Congress and receives funding through the SBA's appropriations bill. Even though the Council is independent of the SBA, we have always participated with the Council. At times the SBA Administrator has chaired the Council and the SBA's Office of Women's Business Ownership has worked with the Council on many of its initiatives to increase opportunities for women business owners.

Currently, these initiatives include increasing access to capital, improving opportunities for women in government procurement programs, and developing a better profile of women business owners through sophisticated data collection. Groundwork to implement these initiatives has been started.

The establishment of a procurement pilot program has begun. This program will target, initially, three agencies for identification of procurement opportunities for women-owned companies wishing to do business with the U.S. government. With women-owned businesses currently receiving only 1.5 percent of government procurement contracts, the Council feels that this program has excellent potential. Under this pilot program, the targeted agency, the SBA's Office of Women's Business Ownership, and the Office of Management and Budget's Office of Federal Procurement Policy will work together to plan, execute, and evaluate an aggressive outreach program designed to increase opportunities for interested women-owned businesses.

A proposal has been made for an annual survey of all women-owned firms, both with and without employees. An annual census is needed to document the growth so that policy makers and private sector interests have the best and most reliable information available on which they can base their decisions. Only through such a study can comprehensive data be obtained to replace the 1987 statistics currently being used.

Since 1990, the Council has received appropriations totaling approximately $2,469,000, for an average annual budget of $494,000. In fiscal year 1994, $500,000 was appropriated to the Council. As previously mentioned, the SBA had to make many difficult choices in the FY 1995 budget submission, and the decision not to request funding is illustrative of one of those tough choices.

We at the SBA are trying hard to address the issues facing women business owners. We recently initiated a loan prequalification pilot program in 11 cities -- an effort which we hope will yield positive results for women business owners. We are also pushing hard to expand nationwide the "Low Doc" pilot program which makes 7(a) loans of under $100,000 using a one page application in order to streamline the paperwork associated with the loan approval process. Preliminary results from this pilot look very promising for women business owners -- 18 percent of loans made under Low Doc have been to women business owners. In addition, women comprise 45 percent of the borrowers under our Microloan Program, which provides financing of $25,000 or less to smaller, often start-up business owners. Finally, Administrator Bowles is negotiating aggressive overall goals for loans to women with each District Director.

In closing, let me reiterate our commitment to serving both women business owners and those small businesses who need assistance in foreign markets. While acknowledging the constraints of the Agency's very limited budget, we remain no less committed to these small business owners. Thank you again for the opportunity to present SBA's views on these important matters.

Addendum to Statement of Mary Jean Ryan

before the

House Committee on Small Business

May 4, 1994

You have also asked me to address legislation which you recently introduced, H.R. 4322, which would raise the FY 1994 authorized level for SBA's Certified Development Company Loan (502 and 504) program from $1.2 billion to $1.5 billion. We fully support this proposal. Our FY 1994 appropriated level for 504 is $1.0 billion, and at the current rate of loan approvals that level will not be sufficient to meet the needs of our borrowers through the end of this fiscal year. In fact, we are predicting that our current 504 loan authority will be depleted by mid-July. The current authority for 502 loans is $40 million, and we have exhausted these funds early in each quarter this year.

The 504 Program provides permanent fixed rate financing for businesses needing to acquire industrial or commercial buildings, and for those wishing to buy machinery and equipment. Under this program a bank or other private lender provides 50 percent of project cost, and takes a first lien position. Forty percent of the project is financed by an SBA guaranteed debenture and has a second lien position. The small business itself finances the remaining 10 percent.

A network of 400 Certified Development Companies (CDCs) serves as the program's foundation. They are for the most part non-profit organizations sponsored by private interests and by state or local governments. These CDCs organize the financial package and prccess, close and service the loans.

This program provides small businesses with the equivalent of long-term corporate bond financing. Long-term fixed rate financing benefits small businesses by removing uncertainty about the availability and cost of capital for the term of the credit. The low interest rates available in today's environment will reduce the cost of capital to small businesses for years to come.

With a subsidy rate of 0.5 percent, the 504 program is an excellent value to the taxpayer. Moreover, under the 50-40-10 financing structure, each 504 dollar leverages one and one-half private sector dollars.

Another important factor regarding the 504 program is that it creates jobs. The SBA has a regulatory requirement that in most cases at least one job must be created for each $35,000 of loan guaranty. The program actually succeeds in creating one job for each $8,900 in guaranty dollars. Because of the low subsidy rate of 0.5 percent, the cost in actual federal outlays per job is only $44.50.

The 504 program represents an area where demand has dramatically increased over the past few years. Approvals were $457 million in FY 1991, $622 million in FY 1992, and $814 million in FY 1993. Through April of this fiscal year, approvals total $664 million, a 66 percent increase over the first seven months of last year.

The 504 program leverages $1.63 in private sector dollars for each 504 guaranty dollar, so we get the most bang for the buck. A $1.5 billion guaranty level in 1994 will result in total financing of $3.95 billion. This program is becoming increasingly popular and important for cities and towns working on economic recovery because it provides long-term loans for business facilities and equipment and has proven itself to be a great vehicle to stimulate job creation.

In H.R. 4297, SBA is requesting authorization of the 502 and 504 programs at $2.3 billion in FY 1995, $3.8 billion in FY 1996 and $5.7 billion in FY 1997. Mr. Chairman, we appreciate your continued support for the 504 program and we look forward to working with this committee to pass H.R. 4322. Thank you.

National WOMEN'S BUSINESS Council

1993 Annual Report
to
The President
and
Congress

'The National Women's Business Council shall ensure the full participation of women business owners in the free enterprise system by identifying and vigorously promoting their interests in ways that can be measured'

Mission Statement
National Women's Business Council

THE WHITE HOUSE

WASHINGTON

March 25, 1994

Since its inception in 1988, the National Women's Business Council has been instrumental in promoting the interests of our nation's female entrepreneurs. Now the fastest growing sector of America's small business community, women-owned firms owe a debt of gratitude to the members of the NWBC for their hard work and dedication. On behalf of all Americans who have benefited from the new jobs and opportunities that you have helped to create, I commend you for your outstanding service.

Bill Clinton

National WOMEN'S BUSINESS Council

★★★

1993 Annual Report
to
The President
and
Congress

'The National Women's Business Council shall ensure the full participation of women business owners in the free enterprise system by identifying and vigorously promoting their interests in ways that can be measured'

Mission Statement
National Women's Business Council

NWBC
National Women's Business Council

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MR. PRESIDENT AND MEMBERS OF CONGRESS:

1993 was a year of transition in Washington. New leadership moved into the White House, and with the new Administration came a commitment for change. The year also saw a renewed commitment from the Clinton Administration to enact policy and regulatory changes to increase opportunity for small business.

The National Women's Business Council moved quickly to ensure that the unique needs of women business owners were considered as key public policy issues such as health care reform, reinventing government, reform of the Community Reinvestment Act, economic stimulus legislation, and passage of the North American Free Trade Agreement (NAFTA) were debated.

A series of hearings on international trade early in the year became an opportunity to demonstrate the importance of the global marketplace to the success of women-owned businesses and a forum for discussion on the role of NAFTA in opening up that marketplace. By the time of the Congressional vote on NAFTA at year's end, a poll indicated that 84 percent of women business owners supported the agreement; the Council is pleased that it was able to contribute to the successful outcome of this debate.

1993 was also a year of transition for the National Women's Business Council. President Bill Clinton appointed Mary Ann Campbell, CFP, President of Money Magic, Inc., of Little Rock, Arkansas, Council Chair and Secretary of Commerce Ronald H. Brown as Vice-Chair. With Congressional reauthorization of the Council late in the year, Congress and the Administration reaffirmed their commitment to the work of the NWBC. According to Commerce Secretary Brown:

> "The Administration's support that led to reauthorization of the National Women's Business Council keenly demonstrates our firm commitment to the issues facing women business owners. I look forward to working with the Council as we address barriers confronting entrepreneurial women, particularly access to capital and procurement."

Throughout 1994, the NWBC will increase its participation in deliberations on these and other public policy issues of importance to women business owners. In addition to the series of recommendations that we include with this report, we will look for opportunities to make additional recommendations to you in the coming year.

To prepare for the challenges of 1994 and beyond, and to ensure that scarce resources are directed to the most urgent issues, the Council in 1993 prepared a strategic plan. The result of input from a broad circle of experts and women entrepreneurs, the plan established priorities, goals and strategies for the Council, and identified two priority issues on which the NWBC could have maximum impact: increased opportunities for federal and private contracting (procurement) and financing (access to capital) for women business owners.

As the growth in women-owned businesses continues to exceed the growth of small business in general, a great deal of work remains to be done. One of the major barriers that still confronts the Council as it works to fulfill its mission is the lack of timely and reliable data on women and their businesses. For the first time, the 1992 census includes data on this rapidly growing sector of the small business community. Unfortunately, even these data will not be available until 1995, and the critical analysis of the data will not be completed until the following year, so we must redouble our efforts to develop an accurate profile of women business ownership as we move into the twenty-first century.

We believe that the Council, in its role as advisor to the President and to Congress, is in a unique position to identify and promote private sector programs that have been successful in encouraging women entrepreneurs. In 1994, we will work actively to identify and nurture coalition relationships with other women's groups, and to develop collaborative relationships with advocacy organizations that represent, support and study women business ownership.

We would like to express our appreciation to President Clinton, to Commerce Secretary Brown, to the U.S. Small Business Administration, and to the Board of Governors of the Federal Reserve for their enthusiastic support of and participation in our programs, and to the many individuals and organizations from state and local government and the private sector who have helped us in our efforts to date.

This year of transition has been valuable as it has empowered us to reaffirm our mission and to redirect our efforts toward the Administration's agenda to embrace change. In fact, women business owners' capacity to embrace growth and change is part of the reason they are becoming an economic force in asset building and in jobs creation. We are committed to meeting the goals and implementing the plans we have set for ourselves in 1994.

National Women's Business Council
December 1993

★ *INDEX*

1993 RECOMMENDATIONS

TO

THE PRESIDENT

AND TO CONGRESS

'In the last 20 years American women have rejuvenated the U.S. economy by doubling the size of its pool of talented entrepreneurs and workers. This nation's women are its single most important edge over its major industrial rivals'

Mary Ann Campbell, CFP
Chair, National Women's Business Council
President, Money Magic, Inc.

★ *PROCUREMENT*

To Preserve and Increase Access to Procurement Opportunities for Women Business Owners from the Federal Government and All Grantees that Receive Federal Money:

1. **Expand access to all federal government-funded contracts and subcontracts for all small businesses, including women-owned businesses which have been under-utilized in the past, by eliminating burdensome requirements that have the effect of discriminating against small and women-owned businesses.**

2. **Establish mandatory prime and subcontracting goals for women for all federal government-funded contracts and for all recipients of federal funding. These goals would not compete with or reduce minority set-asides or goals.**

3. **Establish a pilot program that would target specific civilian agencies for aggressive outreach/contract award initiatives to identify women contractors to bid on contracts.**

4. **Adopt a single uniform definition of a woman-owned business for procurement purposes. In its 1992 Annual Report, the Council recommended the following definition:**

   A woman-owned business is a business concern with at least 51 percent unconditional ownership and control by a woman or women. Such unconditional ownership must be reflected in the concern's ownership agreement; and the woman, or women, must manage and operate the business on a daily basis.

   Joint Venture Agreements

   A woman-owned business must control the performance of the contract awarded to the joint venture for the venture to qualify as a woman-owned business.

   Subcontracting

   A business concern shall not be qualified as a woman-owned business unless it meets the criteria mentioned above and it controls a significant portion of its contract with its own facilities and personnel.

Control and Management

An applicant concern's management and daily business operations must be controlled by a woman or women. An applicant concern must be managed on a full-time basis by one or more women. The U.S. Small Business Administration will consider, on a case-by-case basis, the actual management involvement of women in the applicant concern. A woman must hold the highest ranking in the organization.

The woman or women shall control the Board of Directors of the applicant concern, either in actual numbers of voting directors or through weighted voting. Men may be involved in the management of an applicant concern, and may be stockholders, partners, officers, and/or directors of such concern. However, these men may not exercise actual control or have the power to control the applicant concern.

Franchise and License Agreements

In determining whether the franchisor controls, or has the power to control, the restraints relating to standardized quality, advertising, accounting format and other provisions imposed on a franchisee by its franchise agreement shall generally not be considered, provided that the franchisee has the right to profit from its efforts and bears the risk of loss commensurate with ownership. Even though a franchisee may not be controlled by the franchisor by virtue of such provisions in the franchise agreement, control could arise through other means, such as common ownership, common management or excessive restrictions upon the sale of the franchise interest.

Rationale:

It has been Congress' intent, as evidenced in the many bills it has passed in the last five years, to direct the government to balance the need for streamlined procurement with an important socio-economic concern: insuring that small businesses, minority-owned businesses and women-owned businesses are not shut out of the market. The stakes for federal small business contractors are high, since studies have shown that winning federal government contracts greatly increases the chances for a firm's survival.

Many, but not all, women-owned businesses qualify as small businesses. Thus, efforts to assist small business in the procurement process -- through increasing the number of contracts targeted for small business, streamlining the procurement process and institutionalizing the use of electronic contracting -- also will assist small women-owned businesses. The NWBC is particularly excited about the Electronic Data Interchange program and recommends that this program include both electronic notice and electronic bidding. We also believe that the data base must be compatible from agency to agency and from procurement center to procurement center.

A recent pilot program undertaken within the Department of Defense showed a dramatic increase in awards to small business and, most notably, a sharp increase in the number of contracts awarded to women-owned businesses.

The Council believes that the time has come for Congressionally mandated contracting and subcontracting goals for women-owned businesses because, after more than a decade of voluntary Executive Branch goal-setting, a recent study prepared for the Small Business Administration showed that only where there have been legislated preferences have women-owned businesses made substantial gains.

We know that there are sufficient numbers of women business owners eager to do business with the federal government. But the system is not accommodating them. In fiscal year 1992, only 1.6 percent of all federal procurement dollars were awarded to women-owned businesses. Preliminary data for FY 1993 show little improvement.

Increasing access of women business owners to federal procurement is good not only for the women business owners, it is good also for the economy. In its landmark hearings that led to enactment of the legislation that established the Council, the House Committee on Small Business concluded:

> "It is impossible to overestimate the social and economic importance of this new economic reality .... Women-owned businesses may provide the cutting edge -- and the American advantage -- in the worldwide economic competitiveness fast upon us. The loss to the Nation would be incalculable were public policy makers not to foster this development to the fullest extent possible."

However, goals alone are not enough. They are merely the beginning of the process. Evidence compiled by the Small Business Administration's Office of Women's Business Ownership suggests that agencies with a commitment from the top and a person dedicated to outreach to women-owned businesses produce significant increases in actual contract awards. Thus, the Council recommends an intensive outreach and contract award initiative that really works to bring women-owned businesses to the bidding table.

In its 1992 Annual Report to the President and Congress, the Council recommended adoption of a single uniform definition of women-owned businesses for procurement purposes. We repeat that recommendation this year. Women business owners have told us of their frustration in identifying and qualifying for government set-asides and incentives to small and disadvantaged businesses. Even federal agencies are not consistent in their definitions, and each state develops its own guidelines. We believe the federal government must set the standard for procurement purposes, and that this standard also should apply to federal data collection efforts.

Procurement reform legislation introduced in the first session of the 103rd Congress included a number of additional proposals that the Council endorses:

★ Designate women-in-business specialists in all agencies to work closely with the Office of Women's Business Ownership in the Small Business Administration.

★ Require all procurement officials to engage in affirmative action to identify and solicit offers from small businesses owned and controlled by women or by socially and economically disadvantaged individuals.

★ Congressionally mandate establishment of the Office of Women's Business Ownership in the SBA.

★ Require the Director of Federal Procurement Policy to develop policies to ensure that small businesses owned and controlled by women or by socially and economically disadvantaged individuals be provided with "maximum practicable opportunities" to contract and subcontract.

★ Require a study and report by the Director of Federal Procurement Policy, the Government Accounting Office, or the Comptroller General on progress to ensure that the number of small businesses owned and controlled by women or by socially and economically disadvantaged individuals receiving federal contracts and subcontracts increases significantly.

★ Make effectiveness in outreach to small businesses owned and controlled by women or by socially and economically disadvantaged individuals one of the elements of the performance evaluation of government contracting officers.

★ *ACCESS TO CAPITAL*

To Increase Access to Capital:

1. **Create a Small Business Investment Company (SBIC) which would target investments to women's business enterprises.**

2. **Develop an education and awareness program for policy makers on the range of options available to address the capital and credit needs of women-owned businesses, and a program to educate corporations, banks, lenders and other investors on the value of and need for business development programs for women.**

3. **Enact guidelines or incentives that will encourage banks and other institutional investors to make investments in intermediary organizations that target low- and moderate-income women and minorities for entrepreneurial training, technical assistance and financial services.**

4. **Expand current data collection requirements for large and small banks to include race, gender and income levels of borrowers, as currently is required of 9,000 banks and mortgage lenders under the Home Mortgage Disclosure Act (HMDA). Collect information on patterns of lending and investment activity benefiting women-owned businesses.**

5. **Creation of new instruments to be sold in secondary market for small business loans as a way to boost the flow of capital to women entrepreneurs and all small businesses.**

Rationale:

Concerns of women business owners have changed in the last several years. For many years these women and their advocates worked to remove discriminatory barriers that blocked access to credit. While not forgetting the importance of fighting gender discrimination, today women business owners are working proactively to promote new approaches to ensuring access to credit for all types of women-owned businesses, and to ensure that this information reaches the women business owners who need it, the financial industry that is in a position to provide it, and the policy makers who can work to expand it.

The economic boom of the 1980s spawned a series of innovations in business capital and credit formation. Bank mergers and acquisitions supplanted the traditional community-based lending network. The 1980s also saw the creation of non-bank financing opportunities designed to meet entrepreneurial needs that banks were unable or unwilling to service. Venture capital emerged as a significant tool, expanding beyond its traditional niche in high-tech industries into other emerging business areas.

Financing programs and products exist for women entrepreneurs, whether they are starting new enterprises, trying to grow their business, or planning for major expansion. What do not exist, however, are data that show women business owners as consistent users of lender services, or clear information on how well women business owners are being served by lenders.

The majority of women-owned businesses are in the service industry. And traditional ways in which banks measure credit worthiness do not apply to this sector because banks have traditionally required collateral as security for a business loan. Service-related businesses have little or no assets to be used as collateral. To overcome this barrier, banks will have to restructure the methods by which they qualify applicants for a loan, or new sources of capital must be identified to meet this growing demand.

Given the fundamental structural barriers that impede the flow of capital to small businesses, facilitating the development of a secondary market for small-business loans would free up more capital as banks pooled their loans while providing investors with attractive new opportunities aimed at fueling economic growth.

Small Business Investment Companies (SBICs), which exist to supply equity capital, long-term loans and management assistance to qualifying small businesses, may be one source of capital for women-owned businesses. The privately owned and operated SBICs use their own capital and funds borrowed from the U.S. Small Business Administration to provide financing to small businesses in the form of equity securities and long-term loans.

And as additional options for access to capital are identified, another challenge emerges: disseminating information to a variety of audiences about the range of financing options available, specifically noting those that might be appropriate for particular types of women business owners. Initiatives that would further this education process include:

★ Awareness and information programs to help financial institutions understand specific characteristics of women-owned businesses, which often are incorrectly viewed as riskier than other business ventures. Also, information programs on the viability of character-based lending, enterprise development experience and innovative financing programs. Financial institutions need to become aware that lending to women-owned businesses can be profitable, and that it is their responsibility to open new routes of credit for these businesses.

★ Education and awareness programs for policy makers on the range of options available to address the capital and credit needs of women-owned businesses. Also, programs to leverage public and private sector resources to ensure that women business owners have access to the best options throughout the country.

★ Programs to educate corporations and private and public foundations on the value of and need for business development programs such as SBA's Office of Women's Business Ownership's Demonstration Programs.

★ *DATA COLLECTION*

To Improve the Quality and Quantity of Data Collected on Women-Owned Businesses:

1. **Require the Census Bureau to conduct an annual study to document the growth trends of women-owned businesses, including characteristic information such as revenues and number of jobs provided.**

2. **Require the inclusion of gender as a variable in all federal surveys, studies and censuses.**

Rationale:

Throughout this report, virtually all of the barriers to success of women-owned businesses and the recommendations to remove those barriers reference the dearth of consistent and reliable data on women-owned businesses. John Dodds and Donna McCutcheon of the Enterprise Statistics Branch of the U.S. Bureau of the Census told a work session on "Statistics of Women" that:

> "Sources of data on women-owned firms are generally limited in coverage, scope, or timeliness. Comparability among existing data programs is limited and combining data from various sources obtains only an imperfect picture of the overall women-owned business population."

A report released in 1992 by the National Foundation for Women Business Owners estimated that women-owned firms provide more jobs to the American economy than all the Fortune 500 firms combined. However, there currently are no official data showing the important contributions and economic trends of women business owners.

For the first time, the 1992 census of business includes data on this rapidly growing segment of the American economy. However, that tabulation will not be available until 1995, and the critical analysis of the data will not be completed until the following year. Only by directing the Census Bureau to institute more accurate and timely data collection, and by requiring that all federal surveys, studies and censuses include gender identification as a variable will we begin to get a consistent understanding of the scope and nature of women-owned businesses in the United States.

This information will help us make projections and develop policy recommendations that will be needed for decision-making in the years 2000 and beyond.

THE COUNCIL IN 1993:
A YEAR OF TRANSITION

★ *NWBC ADOPTS A STRATEGIC PLAN*

Action Agenda Calls for Focus on Key Issues

When Bill Clinton took the oath of office as President of the United States on January 20, 1993, he committed his Administration to changing the way government works, to ensuring that it works for the people who elected him. With the change in Administration came change at the National Women's Business Council.

Two months after President Clinton was sworn in, he appointed Council member Mary Ann Campbell, CFP, of Little Rock, Arkansas, as Council Chair. Shortly thereafter, Secretary of Commerce Ronald H. Brown was appointed Vice-Chair.

Soon after her appointment as NWBC Chair, Mary Ann Campbell met with U.S. Small Business Administrator and NWBC Council member Erskine Bowles to review the Council's agenda for the 103rd Congress. From that meeting came a recommendation that the Council identify "measurable goals" that could be accomplished within a limited time frame and with scarce resources -- a task entrepreneurs are faced with every day of their lives.

> *'We know how critical women business owners are to the economic strength and stability of our country'*
>
> Erskine Bowles
> SBA Administrator

With input from a broad circle of experts and women entrepreneurs, the Council developed a strategic action plan. Twenty-seven women representing women's business organizations nationwide convened in Washington, D.C., in late August to brainstorm priorities, goals and strategies for the next two years, and to identify programs on which the NWBC could have maximum impact.

NWBC members returned to Washington in September to refine further the ideas developed at the August meeting. The strategic plan that resulted from that meeting was approved formally by the NWBC at its September 29 public meeting. The plan recommended that in the limited time available to the Council, and in light of its limited resources, the NWBC focus its attention on two key areas: increased opportunities for federal and private contracting (procurement) and access to capital specifically targeted to women business owners.

New Mission

The Strategic Plan incorporated a new mission statement for the Council:

> "The National Women's Business Council shall ensure the full participation of women business owners in the free enterprise system by identifying and vigorously promoting their interests in ways that can be measured."

To fulfill this new mission, the Council agreed to take on a variety of responsibilities:

★ To collect, review and analyze data and information on barriers to full economic participation by women business owners.

★ To develop recommendations for increased business opportunities in both the public and private sectors.

★ To actively promote these recommendations and monitor their status.

The plan recognized the Council's unique role as an advisor to the President and to Congress on issues of woman-business-ownership and proposed to take advantage of that role to bring together public and private constituents to develop and implement programs designed to increase the contributions of women business owners to the nation's economy.

An Action Agenda

The plan proposed to develop measurable action plans, identify key issues affecting women-owned businesses, and to present women business owners' positions on key initiatives to open up the public and private sectors to include women-owned businesses and to create new opportunities for such businesses in these sectors. To carry out this agenda, the Council will focus on implementing many of the findings and recommendations that have emerged from hearings, workshops and other policy discussions sponsored by the NWBC in the first years of its existence.

Major issues for the NWBC to address include:

★ <u>Procurement.</u> The Council will work to implement recommendations to increase access for women to procurement opportunities in the public and private sectors. Many of these recommendations were developed in the first five years of the Council's existence, when the NWBC aggressively sought input from women business owners and organizations representing them.

★ Financing. The Council will complete the series of workshops on access to capital that began in 1993. These policy workshops will focus not only on obstacles confronted by women entrepreneurs seeking financing to launch or expand their businesses, but also on opportunities to overcome these obstacles and examples of how women are seizing those opportunities.

★ Reinventing government. Recognizing the opportunities that the Administration's proposals to "reinvent government" present for women business owners, the Council will focus its attention on ensuring that these proposals respond to emerging trends in new business creation among women entrepreneurs, so that the system is opened up to include underserved populations -- small business owners who also are women.

Findings and results from these efforts will be published as a major report from the Council, for dissemination not only to the President and to Members of Congress, but also to private sector businesses and the press.

NWBC as a Representative of Women Business Owners

In addition to assuming the role of catalyst on the issues of procurement and access to capital, the Council's 1993-94 Strategic Plan also called for it to play a pro-active role in identifying and speaking out on other issues of concern to women business owners, and to position itself as a source of information on the impact of legislative and regulatory decisions on women-owned businesses.

The plan called for the Council to develop and maintain strong relationships with other women's groups, and to develop collaborative ties with organizations that represent, study and support women business owners.

Finally, the plan recognized the importance of communications to the success of the Council, and calls for implementation of a comprehensive, ongoing strategic communications plan to:

★ Increase awareness of women-owned businesses and their issues among policy makers at all levels, with financial institutions and with corporate leaders;

★ Raise awareness among women business owners about the Council and its activities, so women may benefit from the Council's programs and support its actions; and

★ Foster the development of an advocacy network for women business owners.

★ *PROCUREMENT*

Small Business Administration Study Finds Substantial Gains Only with Mandated Preferences

After more than a decade of voluntary Executive Branch goal-setting, a study released by the U.S. Small Business Administration in 1993 concluded that only where there have been legislated preferences have women-owned businesses made substantial gains. According to the study,

> "It is likely that large numbers of minority- and women-owned firms would be able to provide goods and services to the federal government given additional outreach or incentive programs."

Anecdotal information collected by the NWBC and the National Association of Women Business Owners ring with stories of women-owned businesses having to hire male contracting officers to negotiate with contracting officials of the federal government. In fiscal year 1992, only 1.6 percent of all prime federal procurement dollars were awarded to women-owned businesses. Preliminary data for FY 1993 show little improvement.

Several bills have been introduced in Congress to streamline the federal procurement process. Each of these represents an opportunity for the NWBC to ensure implementation of its recommendation for a standard definition of a woman-owned business, and for reform of federal procurement standards to open the system to women entrepreneurs. Proposed legislation includes:

- ★ H.R. 2357, the "Women's Business Procurement Assistance Act of 1993." Introduced by Rep. John LaFalce, Chairman of the House Committee on Small Business, this bill would codify "good faith efforts" for all U.S. government agencies to contract with small business concerns owned and controlled by women. It would designate a Women-In-Business specialist in each agency to implement programs to assist women-owned businesses; it would institutionalize the Small Business Administration's Office of Women's Business Ownership; it would require the General Accounting Office to report to Congress on the number of women-owned businesses awarded federal contracts over the next three years.

- ★ H.R. 2238, the "Federal Acquisition Improvement Act of 1993." Introduced by Rep. John Conyers, Chairman of the House Committee on Government Operations, this legislation would implement procedures to reduce impediments in agency procurement policies and practices. It would revise the Federal Acquisition Regulation to include simplified uniform contracts for the acquisition by federal agencies of commercial items. It also would raise the simplified acquisition threshold from $25,000 to $100,000.

★ S. 1587, the "Federal Acquisition Streamlining Act of 1999." Introduced by Sen. John Glenn of the Senate Committee on Government Affairs, this comprehensive procurement reform bill incorporates recommendations from the National Performance Review. It would strengthen the competition process by increasing the use of streamlined acquisition procedures. Federal agencies would be encouraged to purchase commercial items wherever possible, thus avoiding detailed design specifications and product testing. The small purchase threshold would be raised to $100,000 to simplify the procurement process.

Each of these bills, as well as other efforts by the Clinton Administration and by Congress to "reinvent government," present opportunities to increase access of women business owners to federal procurement contracts and funding, and to streamline current burdensome requirements that have the effect of discriminating against small and women-owned businesses.

★ ACCESS TO CAPITAL

A Roundtable Policy Discussion
Richmond, Virginia
September 28, 1993

The National Women's Business Council sponsored its first policy discussion on Access to Capital in Washington, D.C., in 1992, in conjunction with the U.S. Small Business Administration and the Federal Reserve Board. Symposium participants -- experts in banking, investment and women's business enterprise, along with government officials -- examined the current environment for financing women-owned businesses and explored financing options. Among the recommendations to emerge from the symposium was that direct interaction between women business owners, lenders, the government and private sector advocates continue.

As a result of this recommendation, the Board of Governors of the Federal Reserve Board agreed to cosponsor additional workshops on Access to Capital in 1993-94. The first of this series took place September 28 in Richmond, Va. More than 70 participants, drawn from the region served by the Federal Reserve Bank of Richmond -- Virginia, West Virginia, North Carolina, South Carolina, Maryland and Washington, D.C. -- participated in six roundtable discussions.

Agreement on Priorities

Issues addressed during the roundtable discussions included continuing education and training, the frustration of government loan program applications and regulatory requirements, limitations on and responsibilities of traditional lenders, use of public-private financing ventures to fill the gaps, and the need for a comprehensive look at funding options outside traditional sources.

Following the discussions, participants convened for a summary session and agreed on two priorities:

1. Women business owners need specific feedback about why their loans are being denied. They need to know why they do not fit the profile used by bankers to evaluate credit worthiness. Lenders, on the other hand, feel they are restricted by law from providing this information.

   Certain statutes regulating the banking industry may in fact make a bank liable for the failure of a business to which it has loaned money, or may put the bank at risk of having to defend a lawsuit if the applicant, having been turned down once, reapplies after making recommended changes and is rejected a second time.

2. Banks and borrowers both complained about the overwhelming amount of paperwork required for the Small Business Administration loan guarantee application process. Banks indicated that the paperwork burden has discouraged most of them from participating in the program; borrowers say it has deterred many of them from applying.

   Streamlining paperwork requirements and pre-certifying borrowers, perhaps through an electronic screening process, could increase the popularity and success of this and other government loan programs for small businesses.

Additional Workshops Scheduled for 1994

This first of a series of workshops on Access to Capital succeeded in fostering an understanding among women business owners and bankers the opportunities and limitations of the traditional sources of lending. Participants also acknowledged an increased respect for and appreciation of the others' needs and goals.

Findings from this workshop, along with those from additional workshops to be held in 1994, wiil be incorporated into a report to the President and to Congress on "Building a Financial Ladder for Women-Owned Businesses."

★★★★★★★★★★★★★★★★★

Despite Improvements,
NFWBO Survey Finds
Significant Barriers Remain

As 1993 began, the National Foundation for Women Business Owners (NFWBO) estimated that the more than 6.5 million women-owned businesses in the United States employed more people than all of the Fortune 500 companies combined. Despite the significant growth in recent years among women-owned businesses, owners continue to face significant barriers in identifying and obtaining the financing they need to operate and expand their businesses.

> Fully one-third of women business owners perceive some degree of gender-based discrimination in obtaining capital to finance or expand their business

Nearly 40 percent of NFWBO members responding to the biennial survey cited availability of capital as the most significant barrier to growth. Survey results, released in 1993, indicated that two-thirds of women business owners had difficulty working with their financial institutions. The Foundation noted that women-owned businesses are 22 percent more likely to report problems dealing with their bank than businesses at large.

Specific problems that women business owners reported in working with their banks to obtain financing included:

- ★ need for more assets (28%)
- ★ need for greater collateral (23%)
- ★ limited track record (22%)
- ★ banks' limited experience dealing with service businesses (21%)

Women also reported significant problems dealing with loan officers. One-fifth of survey respondents -- 20 percent -- reported that their loan officer insisted on a spouse's signature to obtain a loan. Fourteen percent said they thought the mere fact that their business was woman-owned was an impediment to obtaining financing. In other words, one-third of women business owners perceive some degree of gender-based discrimination as they seek capital to finance or expand their businesses, according to the NFWBO survey.

Three-fourths of all women-owned businesses have sought short-term financing within the last year. The most popular type of short-term financing used by women business owners is credit cards. In fact, women-owned firms, at 52 percent, are much heavier credit card users than other small firms (at 18 percent), most of whom rely on bank loans and vendor credit.

The NFWBO survey noted that women-owned businesses are growing at a faster rate than the national average, despite these barriers to obtaining capital. Continued efforts to remove the barriers, NFWBO concluded, "would encourage even stronger growth in this important sector, and would result in much greater economic growth throughout the economy."

★ *DATA COLLECTION*

Women continue to go into business in unprecedented numbers; they are starting businesses at least one-and-one-half times the rate of men. In 1992, the National Foundation for Women Business Owners released the results of economic research it commissioned from Cognetics, Inc., an economic research firm. That research indicated that women-owned firms provide more jobs to the U.S. economy than all the Fortune 500 firms do worldwide.

The NFWBO/Cognetics research -- which the NFWBO pledges is just the first step in an ongoing initiative to collect and disseminate statistical information on women-business owners -- represents an important step in quantifying this increasingly important segment of the American economy. According to a fact sheet released by the Foundation:

★ The 6.5 million women-owned businesses in 1992 provided jobs for more than 11 million people. Their stability is reflected in the fact that these businesses are less likely than all businesses either to grow rapidly or to decline.

★ More than 40 percent of these businesses had been operating for 12 years or more, and in every industrial sector including manufacturing, agribusiness, retail, as well as high-growth industries such as health, business and professional services.

★ These businesses continue to expand. Over the last several years, as the largest corporations in the nation were reducing their workforces in record numbers, 25 percent of women-owned businesses were adding employees.

The NFWBO research, released in 1992, was the first true measure of the extent of women-owned businesses in the U.S. economy. It is notable that also in 1992, a Presidential initiative to improve the country's economic statistics omitted any mention of women business owners.

While the ongoing research conducted by the National Federation for Women Business Owners is a key component to any comprehensive analysis of the economic contributions of women businesses, the federal economic statistics are the numbers that move the economy nationally and internationally. For the first time, the 1992 census of business will include data on women-business owners. Unfortunately, this tabulation will not be available until late 1995; critical analysis of the data will not be completed until 1996.

Policy makers, researchers and the business community must have access to the highest quality and most comprehensive statistics possible if they are to make informed decisions about this country's future. Only by directing the Census Bureau to institute more accurate and timely data collection, and by requiring that all federal surveys, studies and censuses include gender identification as a variable will we begin to get a consistent understanding of the scope and nature of women-owned businesses in the U.S.

★ HEARINGS ON WOMEN IN INTERNATIONAL TRADE: LATIN AMERICA AND THE PACIFIC RIM

San Diego, California
and
Tijuana, Mexico
March 24 - March 26, 1993

Recognizing the importance of international trade opportunities in the growth and success of women-owned businesses, the Council in March convened three days of hearings to identify successful strategies to encourage and support women entrepreneurs in the global marketplace, and especially in Mexico and other Latin American countries, as well as the Pacific Rim.

Experts from industry, academic and government trade promotion agencies joined with women business owners for the symposia. The Tijuana Chamber of Commerce, CANACO, hosted the first day, which featured a panel on the North American Free Trade Agreement and the emergence of a trade triangle between the United States, Latin America and the Pacific Rim. The final two days of hearings were held at the University of California at San Diego.

Finding Answers

Obstacles and solutions to key issues were identified, developed and reviewed during the sessions. Among the issues confronted:

- ★ The importance of considering foreign governments and foreign banks as possible sources of financing.
- ★ Joining with other women-owned businesses to create alternative financing by pooling funds.
- ★ Using networking relationship skills that are often uniquely a woman's to one's advantage so long as the technical skills and language abilities exist to deal effectively with the needs of international consumer markets and clients.

> As the wisdom of U.S. support for NAFTA was debated publicly and emotionally throughout the country, women business owners emerged as some of NAFTA's strongest supporters

★ Taking advantage of the cultural diversity in the U.S. by developing resource centers with expatriates or immigrants from other countries.

As a result of these hearings, the Council became a leading resource and leader in demonstrating to women business owners nationwide the benefits of participating in trading blocs to increase share in the global marketplace.

A Force in the NAFTA Debate

At year's end, as the wisdom of United States support for the North American Free Trade Agreement (NAFTA) was debated publicly and emotionally throughout the country, women business owners emerged as some of NAFTA's strongest supporters. A poll conducted for the National Association of Women Business Owners shortly before Congress voted on the agreement indicated that 84 percent of women business owners supported NAFTA.

In drawing attention to the importance of international trade in the success of women-owned businesses through programs such as the San Diego/Tijuana conference, the NWBC made a major contribution to the historic developments affecting the way America does business.

★ OTHER ADVANCES FOR WOMEN BUSINESS OWNERS

In the Private Sector

Creation of the Capital Circle. Possibly the most promising advance for women entrepreneurs in 1993 was the announcement late in the year that a group of leading investors has formed a national organization to increase dramatically the flow of capital to women-led businesses. That organization, the Capital Circle, held its first membership conference in Washington, D.C., in October.

"By bringing together the key influencers in various areas of finance, we will design initiatives which break through the obstacles which now prevent women-led business from obtaining capital," said Judy Mello, co-chair of the Circle and Managing Director of Cambridge International Partners of New York.

Included among the Capital Circle's initial membership are private investors, representatives of institutional investment and venture capital companies, and members from family offices, investment advisory firms, government programs, women's organizations, banking, accounting and law firms.

The Circle's goal is to begin channeling capital to women-led businesses by the first quarter of 1995. It plans to stimulate investment in women-led businesses in every stage of development, including start-ups, initial public offerings, businesses needing private capital placements and women-led companies that are publicly traded.

Illinois Women's Economic Development Summit. On July 28, 1993, nearly 150 people convened in Chicago to create an agenda of public, private and fiscal policies to advance women's business development and employment opportunities. Participants developed strategies to:

- ★ Increase the number of women in policy and decision-making roles;
- ★ Expand women business owners' access to capital;
- ★ Remove barriers to home-based businesses;
- ★ Develop women's business opportunities with the public and private sectors;
- ★ Provide access to and resources for women business owners interested in growing their businesses;

- ★ Increase the availability of and women's access to quality training;
- ★ Increase non-traditional employment opportunities for women; and
- ★ Expand career mobility and ensure employment rights.

A summary of the economic development summit recommendations, together with a directory of organizations working on women's economic issues, is being developed and will be promoted through the press, in briefings with public officials and in testimony.

In the Public Sector

Councils organized by state legislatures in California and Colorado to promote business ownership by women pushed forward with aggressive agendas of their own.

The California Council to Promote Business Ownership by Women held its first meeting in September. The 11-member Council was organized to review and recommend policy on:

- ★ The status of women-owned businesses in the state, including barriers that hinder the entry of those businesses into the mainstream of the California economy.
- ★ The role of state and local governments in assisting and promoting women-owned businesses.
- ★ Data collected by public and private sector entities relating to women-owned businesses.
- ★ Other government initiatives that may exist relating to women-owned businesses, including, but not limited to, those relating to state and local procurement.

The Colorado Women's Economic Development Council, appointed by the governor to advance the economic status of women in the state, committed to:

- ★ Marketing a new capital program statewide to enhance the access of women business owners to capital for business start-up and expansion.
- ★ Developing baseline data about women-owned businesses in Colorado.
- ★ Supporting the creation of a full-time, statewide Women's Business Office.
- ★ Sponsoring a statewide summit to create an action plan for the Council, to increase its visibility as a source of information, advocacy and resource coordination for women-owned businesses.

★ Disseminating information on technology training available to women business owners, and working with lead agencies to develop appropriate training programs.

Legislatures in other states also have demonstrated a heightened awareness of the importance of women's business development. In 1994, we anticipate that initiatives will be proposed in other states to promote entrepreneurial efforts by women.

In the Public Policy Arena

To ensure that the concerns of women-business owners are considered before major public policy initiatives are announced, the women's business community in 1993 provided input from the perspective of women-owned businesses on:

★ Health Care Reform. As the White House Task Force on Health Care Reform crafted the Administration's overhaul of the nation's health care system, Council members and staff met with White House staff to ensure that the new system would be tolerant and sensitive to the needs of small businesses. As the debate moves to Congress for 1994, the NWBC will offer comment on reform initiatives, focusing on the unique perspective women business owners bring to this issue. The Council also will encourage other organizations in the women's business community to provide comments.

★ Reform of the Community Reinvestment Act. The Administration sponsored a series of field hearings in 1993 to obtain comment on the Community Reinvestment Act (CRA), which is designed to ensure that financial institutions meet the needs of the communities in which they serve. The women's business community weighed in on the importance of making changes in this and other banking regulations to increase investment to under-served small, women- and minority-owned businesses. Toward the end of the year, the Clinton Administration proposed revisions to the CRA; the National Women's Business Council will review the proposed revisions and consult with appropriate regulatory agencies to determine how the changes will affect the interests of women business owners.

1994 AND BEYOND:

TAKING ACTION

'Women-owned businesses employ more people in the U.S. than the Fortune 500 companies do worldwide.'

"Women-Owned Businesses: The New Economic Force"
Published by the National Foundation for Women Business Owners

★ *LOOKING TO THE FUTURE*

The Council looks to 1994 as a year of enormous challenge, as it works to implement the ambitious goals set forth in its strategic plan. The year also presents great opportunities:

Improving Opportunities in Federal and Private Contracting (Procurement)

★ The Council will develop and promote action plans to increase women-owned business participation in government contracting. Our goal is at least to double federal procurement to women-owned businesses by FY 1996.

★ The Council will develop model legislation to preserve and increase women-owned businesses' share of federal procurement and access to procurement opportunities. Using this model as a guide, we will offer testimony and written comment on proposals for procurement reform and identify opportunities to incorporate language from the model legislation in these proposals.

★ The Council will work to encourage increased participation by women-owned businesses in corporate procurement. By the end of 1994, we will obtain written commitments from at least 50 Fortune 500 corporations to increase procurement to women-owned businesses.

Removing Barriers to Access to Capital

★ The NWBC will complete the series of workshops on Access to Capital that began in Richmond in September 1993. The Federal Reserve Bank in Chicago already has agreed to host one of the remaining workshops, concentrating on equity funding.

★ We will compile the results and recommendations from these workshops, and, with other public and private sector data and research, develop a compendium of financing options available to women business owners. The report also will detail current public and private initiatives to provide financing for women business owners, showcasing the most effective ones, identifying gaps and offering recommendations on how to encourage innovators.

★ The Council will make specific recommendations to the Federal Financing Institutions Examination Council to increase the number of loans provided to small business owners and to make changes in bank examiner practices regarding loans.

★ The Council will develop and strengthen relationships with the network of organizations that provide support to women-owned businesses. One of our first efforts in 1994 will be to establish an ongoing collaboration with the Capital Circle, non-profit membership network of investors from across the United States organized to increase dramatically the flow of capital to women-led businesses.

Through relationships such as these the Council can become a conduit of information between the public sector, private sector organizations that support women-owned businesses, and the businesses themselves.

Speaking Out on Public Policy Issues

In addition to its priority focus on procurement and financing issues, the Council actively will seek opportunities to speak out, testify and file comments on the range of issues affecting women-owned businesses. These issues include:

★ Health Care Reform. The NWBC will work to ensure that those considering health care reform legislation recognize that small business owners want to provide health benefits for their employees, and design a system that will be tolerant and sensitive to the concerns of small business owners.

★ Welfare Reform. As the debate progresses on proposals to reform the nation's welfare system, the Council will work to open up the system to include training and development for entrepreneurial activity, so that low-income women are encouraged to consider not only working for someone else, but also working for themselves.

★ Reform of the Community Reinvestment Act (CRA). The Council will submit comments on proposed changes in the CRA. Council comments will focus on the importance of revising lending criteria to encourage greater investment in small, minority- and women-owned businesses.

As comments on these and other issues are submitted, the Council will work to ensure that they are distributed to other groups representing women business owners, so that they, too, can consider offering input.

★ *APPENDIX*

The National Women's Business Council, established by the Women's Business Ownership Act of 1988, reviews the status of women business owners and makes annual policy recommendations to the President and to Congress.

President Clinton appointed Mary Ann Campbell, CFP, of Little Rock, Arkansas, Chair of the Council on March 13, 1993. Secretary of Commerce Ronald Brown was appointed Vice-Chair on April 19, 1993. Of the Council's nine members, six are appointed by Congressional leadership from the private sector and three are public sector representatives who are designated by statute: the Secretary of Commerce, the Administrator of the Small Business Administration and the Chairman of the Federal Reserve Board.

Council Members

MARY ANN CAMPBELL, CFP, CHAIR
President
Money Magic, Inc.
Little Rock, Arkansas

Mary Ann Campbell is a certified financial planner and president of Money Magic, Inc., in Little Rock, Arkansas. Her company provides financial education seminars as a corporate employee benefit. She is a professional speaker who uses magic to deliver her messages. Mary Ann serves on the Arkansas Business and Education Alliance and was a member of Southwestern Bell's Small Business Advisory Panel. Listed as one of America's 200 best Certified Financial Planners, she has won national awards for her Money Magic ETV series. She has been a financial reporter for an NBC affiliate, has hosted a local Money Talk radio program and wrote a Money Magic column for a local newspaper. In 1991 Mrs. Campbell was awarded the SBA Women in Business Advocate for Arkansas. She was Adjunct Assistant Professor in the Economics department of the University of Arkansas at Little Rock for seven years. Mary Ann holds a master's degree from Texas Woman's University, and is an honor graduate of Ouachita University.

RONALD H. BROWN, VICE-CHAIR
Secretary
U.S. Department of Commerce
Washington, D.C.

Ronald H. Brown is Secretary of Commerce. He also serves on the President's National Economic Council and the Domestic Policy Council. He is chairman of the Trade Promotion Coordinating Committee, the co-chair of the U.S. Russia Business Development Committee and the U.S.-Israel

Science and Technology Commission, and leads President Clinton's initiative on the revitalization of the California economy. He also serves on the Board of Trustees for Middlebury College and is chair of the Senior Advisory Committee of the Institute of Politics at the John F. Kennedy School of Government at Harvard University. He also is an elected member of the Council on Foreign Relations.

ERSKINE B. BOWLES
Administrator
U.S. Small Business Administration
Washington, D.C.

As chief executive officer of the U.S. Small Business Administration (SBA), Erskine Bowles directs a comprehensive array of programs and services to promote and expand U.S. small businesses. Prior to his nomination to head the SBA in March 1993 and his confirmation by the U.S. Senate in May 1993, Mr. Bowles served for 18 years as chairman and chief executive officer of Bowles Hollowell Conner & Company, a Charlotte, N.C., investment banking firm. He also has served as president of the Juvenile Diabetes Foundation and a member of the board of visitors of the University of North Carolina, Davidson College and Johnson C. Smith University, as well as a number of private corporations.

DR. SUSAN M. PHILLIPS
Member, Board of Governors
Federal Reserve System
Washington, D.C.

Dr. Susan M. Phillips was sworn in December 2, 1991, as a member of the Board of Governors of the Federal Reserve System, to fill an unexpired term ending January 31, 1998. Prior to becoming a member of the Board, Dr. Phillips served as Vice President for Finance and University Services and Professor of Finance at the College of Business Administration at the University of Iowa. Previously, she served on the faculty at Louisiana State University. She also has been a Brookings Economic Policy Fellow and an Economic Fellow with the Securities and Exchange Commission. In 1981, Dr. Phillips was appointed to the Commodity Futures Trading Commission and became its Chairman in 1983, serving until her resignation in 1987 to return to the University of Iowa. Her areas of specialization include options and commodity futures, financial management and economic theory of regulation.

BARBARA AIELLO
President
Aiello & Company
Kennebunkport, Maine

Barbara Aiello, owner of Aiello & Company Real Estate, is the 1993 President of the Maine Association of Realtors, chairman of its Executive Committee and a member of its Government and Political Affairs and Political Action committees. She also serves on the board of directors of Ocean National Bank and the Kennebunk Rotary Club, and is an advisory board member of the Institute for Real Estate Research and Education at the University of Southern Maine. She is a member of the Kennebunk/Kennebunkport Chamber of Commerce, Kennebunk Downtown Revitalization Committee and Kennebunkport Business Association.

PASTORA SAN JUAN CAFFERTY
Professor
University of Chicago
Chicago, Illinois

Dr. Pastora San Juan Cafferty joined the Council on May 22, 1992. She is a professor at the University of Chicago in the School of Social Service Administration and the School of Public Policy Studies. She has extensive background in public policy and has served on a number of public and private boards, including the Kimberley-Clark Corporation and the Lyric Opera Association in Chicago.

SAUNDRA R. HERRE
President
Herrewood Associates
Racine, Wisconsin

Saundra Herre is president of Herrewood Associates in Racine, Wisconsin. Her company provides management consulting services to small business owners and non-profit organizations in the areas of advertising, marketing and management practices. Ms. Herre is a board member of Wisconsin TCF Financial and was appointed by the Governor as a member of the Wisconsin Jobs Council. She also serves on the board of Big Brothers/Big Sisters and the Center for Community Concerns, and is an advisor and guest lecturer to the business schools of several universities.

BARBARA L. LAUGHLIN
Executive Vice President
Manufacturers and Traders Trust Company
Buffalo, New York

Barbara Laughlin was appointed to the Council on May 22, 1992. She is an Executive Vice President of the Manufacturers and Traders Trust Company in Buffalo, New York. As Director of Technology and Banking Operations, she is responsible for the provision of data processing, telecommunications and centralized services to support the $10 million First Empire State Corporation.

MARILU BARTHOLOMEW MEYER
President and Owner
Castle Construction Company
Chicago, Illinois

Marilu Meyer is the president and owner of Castle Construction Corporation in Chicago, Illinois. Castle Construction is a general contractor that self-performs concrete, masonry, carpentry and decorating services. MBB Construction Group, a Castle subsidiary, serves the industry in the construction management field. The company has performed extensive work for the City of Chicago, O'Hare development projects, Illinois Department of Transportation and Washington Metropolitan Area Transit Authority.

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WOMEN-OWNED BUSINESSES IN THE U.S.: A STATISTICAL COMPENDIUM

The National Women's Business Council has begun the process of compiling for the first time in a single document, all of the major statistical information known to date about women-owned businesses. .Not only will this compendium put all of the important data concerning women business owners into one publication, it will analyze and integrate the data to highlight important trends in women's entrepreneurship, identify the major gaps that exist in these data, and recommend improvements in data collection activities that can significantly enhance what we know about this important sector of the economy.

The information that exists today with respect to women business owners and their firms forms a framework within which there are important gaps to fill and further work to be done. Among the basic knowledge of women-owned businesses that has been uncovered to date:

- Women are starting business at over twice the rate of men. (U.S. Small Business Administration)

- Women-owned businesses are currently estimated to number 6.5 million. (National Foundation of Women Business Owners)

- Women-owned firms employ more people in the U.S. than the Fortune 500 companies employ worldwide. (National Foundation of Women Business Owners)

- Women-owned businesses increased their economic power nearly four-fold over the past decade: sales growth of 183% from 1982 to 1987. (Bureau of the Census)

- Women are moving into many "non-traditional" industrial sectors. The largest growth areas for women-owned firms during the 1980's were in wholesale trade, agriculture, and manufacturing. (Bureau of the Census)

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We also know that women business owners still face barriers with respect to access to capital to start and grow their business and access to government procurement opportunities. Women-owned business:

- Continue to encounter barriers with respect to access to capital: two-thirds of women business owners report problems in working with their financial institutions, compared to 55% of all small firms. (National Foundation for Women Business Owners)

- Are relying to a much greater extent on credit cards to fulfill their short term capital needs: 52% vs. only 18% among all small firms. (National Foundation for Women Business Owners)

- Still receive less than 1% of all prime federal contract awards (over $25,000), 1.8% of prime awards under $25,000, 2.4% of subcontract awards under $25,000 and only 1.1% of all federal contract actions. (U.S. Small Business Administration)

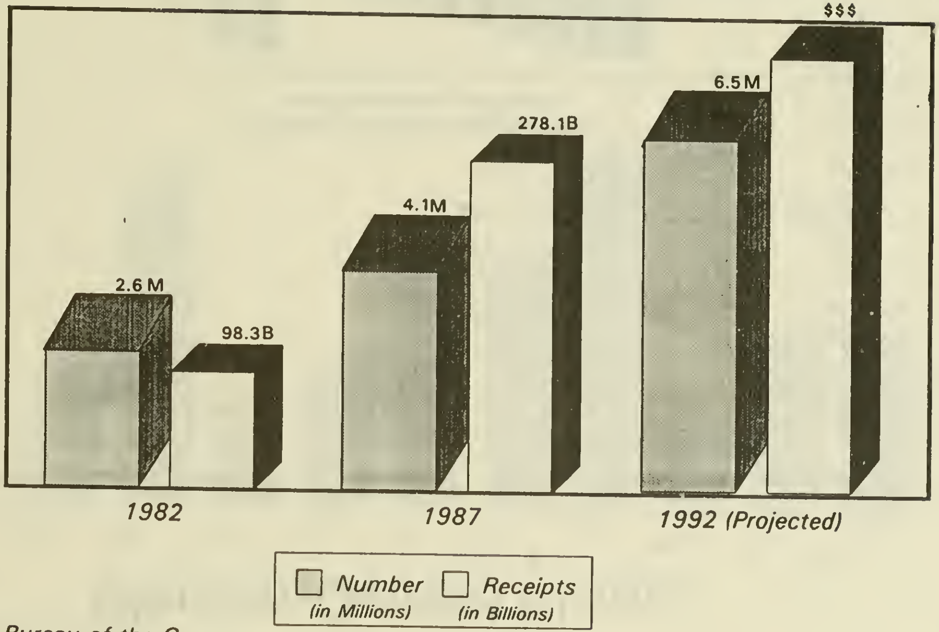
There is not only much that we don't know about women-owned businesses, but much that remains to be done about the increasing the opportunities for women business owners. Some of the issues that need to be addressed with respect to data collection and that the NWBC is working hard on to achieve, include:

- A complete accounting of the full number of women-owned businesses in the country, one that includes C corporations. This is expected from the Bureau of Census in early 1995. The NWBC was a part of the design of this newly expanded Census, and will continue to work to improve it in future years.

- More timely information on trends in this fast-growing sector, Census data are gathered only every five years, and released with a 3 to 4 year lag. A top priority of the NWBC is to explore avenues through which more timely and more frequently gathered information on women-owned may be obtained, i.e. an annual business census of women business ownership.

- Timely information that goes beyond the numbers, explores the issues affecting women business owners, the barriers they face, and the unique contributions they are making to society. This is an area in which the NWBC hopes to make a valuable contribution.

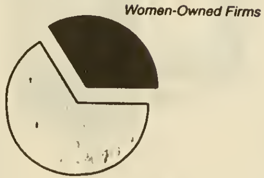
Women-Owned Firms Have Grown Dramatically In The Past Decade



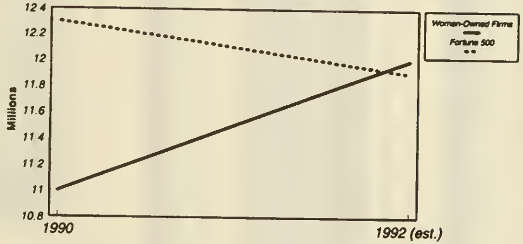
Source: Bureau of the Census

Women-Owned Firms:

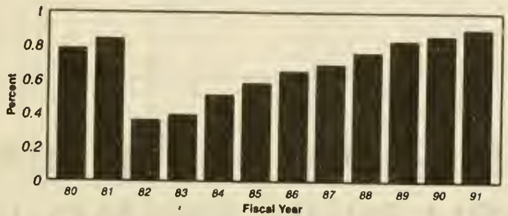
Comprise Approximately One-Third of the U.S. Business Population



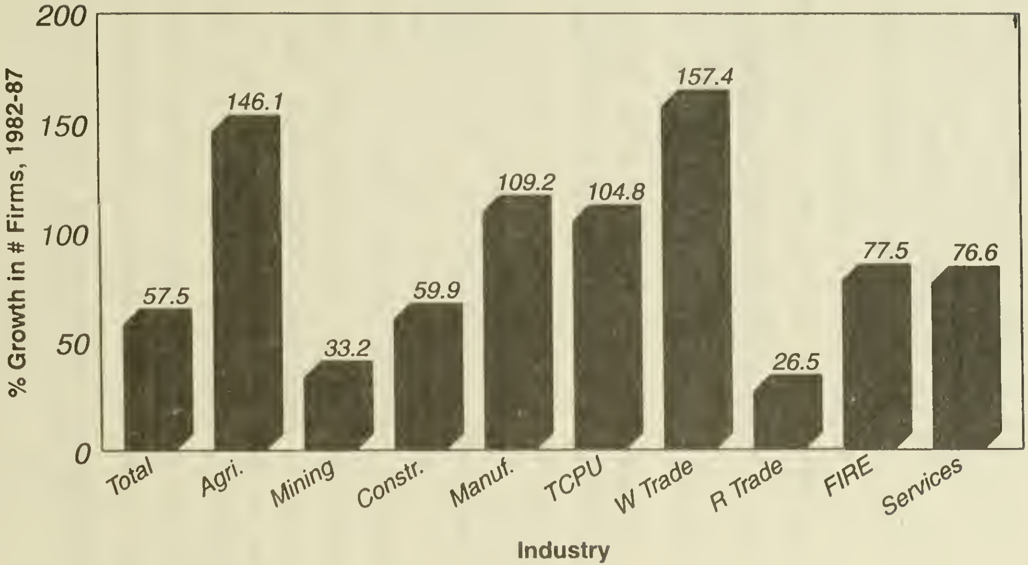
Are Estimated to Employ More Workers Than the Fortune 500



Yet Continue To Receive Less Than 1% of Prime Federal Contract Dollars



Women Are Starting Many "Non-Traditional" Businesses



Source: Bureau of the Census

STATEMENT

OF

AMY J. MILLMAN

NATIONAL WOMEN'S BUSINESS COUNCIL

before

Subcommittee on Procurement, Taxation and Tourism

Committee on Small Business
United States House of Representatives

Hearings on Procurement Reform

February 2, 1994

My name is Amy J. Millman. I am the Executive Director of the National Women's Business Council. The Council is delighted to be invited to comment on the bills before you, H.R. 2238 and H.R. 3586, the leading House proposals on comprehensive procurement reform. We would also like to comment on another bill, H.R. 2357, the Women's Business Procurement Assistance Act of 1993, introduced by Chairman LaFalce, along with members of this committee and other House colleagues. We fully support the objectives of comprehensive reform of the federal procurement system and wish to share with you our views on these bills. In the spirit with which the Chairman's bill, HR 2357, was introduced last year, we would also like to offer recommendations regarding certain improvements and clarifications which should be incorporated into the language of any procurement reform bill.

In early 1993, Mary Ann Campbell, a certified financial planner from Little Rock, Arkansas and President Clinton's choice as Chair of our Council, met with SBA Administrator and NWBC Council member Erskine Bowles to discuss the Council's agenda for this Congress. It was recommended that the Council identify "measurable goals" which could be accomplished within a limited time frame and with scarce resources - a task entrepreneurs are faced with every day of their lives. With input from a broad circle of experts and women entrepreneurs, the Council developed its strategic action plan. What emerged as a top priority was increased access to business opportunities both in the public and private sectors.

Another priority identified in this plan was to get the word out about the unprecedented growth in the sheer numbers of women-owned businesses being established in the last decade. Once the demographics were recognized by policy makers, the Council was confident that efforts to improve access to business opportunities would result.
The 1987 Census reported that 4.1 million women-owned businesses operating as sole proprietorships, partnerships, and Sub S corporations exist in the economy.[1] This represented a 57.4

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[1] A December 1990 SBA Report, A Status Report to Congress: Statistical Information on Women in Business, estimates that approximately 95 % of the women-owned businesses fall in this category which excludes C corporations, but account for only 58.3% of sales. This, of course, confirms that government data which excludes the C corporations greatly understates the contributions to the economy of the women-owned business sector.

percent increase in the number of such businesses from 1982 to 1987, a rate of growth more than four times the rate for all businesses. In that five year period, total receipts for women-owned businesses nearly tripled -- rising to $278.1 billion by 1987. More recently, a 1992 study conducted by the National Foundation for Women Business Ownership (NFWBO) estimates that there are now 6.5 million women-owned businesses, a count reflecting both the inclusion of women-owned C-corporations (a group previously not identified in census data) and growth in this sector since the 1987 census. That same study estimates that these women-owned businesses employ more workers than the Fortune 500. We are anxiously awaiting the tabulations of the 1992 census which should be available in early 1995. It is already clear to us that the data will support the trends identified by the Foundation.

Congress has directed the National Women's Business Council to report to Congress and the President with recommendations on what changes are necessary to assure the success of women's business enterprise in this country. We have a simple message to deliver today. As evidenced in the many bills passed by Congress in the last five or so years, it has been the intent of this body to direct the government to balance its need for streamlined procurement with an important socio-economic concern--insuring that small businesses, minority-owned businesses and women-owned businesses are not shut out of the market. That balance must not be lost in this current rush to reform. Recent studies have shown that winning federal government contracts greatly increases the chances for a firm's survival. The stakes for federal small business contractors, specifically women-owned businesses are high.

COUNCIL RECOMMENDATIONS

The Council believes that the current reform proposals should contain the following:

* the expansion of small business access to federal procurement contracts and subcontracts, including increases in the small purchase threshold to $100,000 and linked to electronic contracting and reserved for small businesses.

* mandatory prime and subcontracting goals for women (which do not reduce or compete with minority set-asides or goals) for federal contracting and for all recipients of federal funding.

* effective measures, **built into the system** to increase real access for women business owners to federal contracts and subcontracts, including a **pilot program involving an aggressive outreach effort to identify women contractors to bid on contracts in certain targeted agencies.**

SMALL BUSINESS INITIATIVES

Many, but not all women-owned businesses, qualify as small businesses. Efforts to assist small business generally, of course, assist small women-owned businesses as well. It is for this reason that we support the provisions in the pending bills to increase the small purchase threshold, streamline the procurement process, and institutionalize the use of electronic commerce. We are particularly excited about the Electronic Data Interchange program and believe that it is very important that this Interchange include both electronic notice and electronic bidding. It is also very important that the data base be compatible from agency to agency and from procurement center to procurement center. The recent pilot program undertaken at Wright-Patterson Air Force base has shown a dramatic success in increasing awards to small business and, **most notably, a sharp increase in the contracts awarded to women-owned businesses.** The Wright-Patterson system has enabled that base to exceed the DoD small business goals and at the same time save the government money. These results prove to us that an open and streamlined system of contracting frees up procurement officials to spend time generating bids and promoting competition.

PRIME AND SUBCONTRACTING GOALS

The Council believes that this round of procurement reform should include Congressionally-mandated contracting and subcontracting goals for women-owned businesses. After more than a decade of voluntary Executive Branch goal-setting, a recent study prepared for the SBA concludes that only where there have been legislated preferences have women-owned businesses made substantial gains. This reality and the knowledge of the growth in the numbers of women-owned businesses as a percentage of the small business community, lead one to conclude that the barriers to access for this sector are structurally ingrained in the current system.

In May 1979, President Carter signed Executive Order 12138, mandating affirmative action by federal departments and agencies "to facilitate, preserve and strengthen women's business enterprise and to ensure full participation by women in the free enterprise system." In the years since that original executive order was signed, the Small Business Administration has worked to increase the participation of women-owned business in federal contracting by negotiating contacting and, most recently, subcontracting goals with government agencies. The efforts to date, with a few exceptions, have produced some, but not substantial, change. And today, more than a decade later, the numbers of contract awards to women are uninspiring. Anecdotal data collected both by the National Association of Women Business Owners and the National Women's Business Council still ring with stories of women-owned businesses having to hire male contracting officers to negotiate with contracting officials of the federal government.

We know that there are sufficient numbers of women business owners eager to do business with the federal government but are frustrated at every turn. This system is not accommodating them, a fact clearly exhibited in the procurement goals and award data which Congress directed the Executive branch to collect. Women-owned businesses continue to be under-represented in the federal market. **In fiscal year 1992, only 1.6 percent of all federal**

procurement dollars are awarded to women-owned businesses. Preliminary data on FY 1993 awards show little improvement.

Any improvement in the women's share of contract dollars has come as a result of deliberate Congressional intervention. Since 1987, Congress has expressed itself repeatedly on this issue. The following statutes direct certain agency programs to target women-owned businesses for contracting opportunities.

* The Surface Transportation and Uniform Relocation Assistance Act of 1987 and the Airport and Airway Safety and Capacity Expansion Act of 1987. These acts required that not less than 10 percent of federal assistance grant dollars provided to state and local agencies to finance highway, urban mass transit, and airport projects must be disbursed to disadvantaged business enterprises. Women are included in the definition.

* The appropriations for the Department of Energy and the Agency for International Development for fiscal years 1991 and 1992 contained 10 percent goals contracting with groups, including socially and economically disadvantaged groups. Here too, the definitions expressly include women.

* The Environmental Protection Agency has two legislatively mandated procurement requirements that include women-owned small businesses among the targeted groups.

    - The 1990 Amendments to the Clean Air Act require the EPA to the extent practicable, to see that not less than 10 percent of total federal funding be made available to concerns owned by socially and economically disadvantaged individuals, including women.

    - The EPA's 1991 appropriation act required EPA to ensure that at least 8 percent of federal funding for prime contracts and subcontracts awarded in support of authorized programs go to similar groups, again including women.

* P. L. 101-144 tasked the National Aeronautics and Space Agency with a goal of 8 percent of the total value of prime contracts and subcontracts to be awarded to socially and

economically disadvantaged firms, which includes women-owned businesses.

* P. L. 102-233 obligated the Resolution Trust Corporation (RTC) to provide additional incentives to minority- or women-owned firms by awarding any such business an additional 10 percent of the total technical points and an additional 5 percent of the total cost preference points achievable in the rating process.

* In P. L. 100-656, Congress has also mandated that data be collected on prime contracting and subcontracting to women-owned businesses. Tables showing that data are attached to this testimony.

Much of the stimulus for these legislative proposals occurred because of the efforts of the Small Business Committee which conducted extensive hearings in the spring of 1988 on women-owned businesses' contributions to the economy. As a result of the hearings, the Committee issued a comprehensive report, New Economic Realities: The Rise of Women Entrepreneurs, and led the effort to pass H.R. 5050, the Women's Business Ownership Act of 1988, the same act which established this Council. Through the leadership of the House Small Business Committee, the Congress has focused attention on the potential of women-owned businesses to make significant contributions to the economy, as a whole, and to the efficient workings of the federal government. The recent legislation actions clearly demonstrate Congress' recognition that removing barriers to the participation of women-owned businesses in the procurement arena is an important socio-economic policy for our country.

One of the catalysts for overall reform of the procurement system has been the Report of the Acquisition Law Advisory Panel (the "Section 800" Panel). The Final Report of the Section 800

Panel contains a clear commitment to maintaining the balance "between an efficient process and socio-economic policies." The Panel Report urged that each socio-economic program created by Congress should be implemented to the greatest extent consistent with reasonably efficient procurement procedures.

However, despite this Congressional action to establish goals for contracting with women-owned business and despite the Panel report recommending that such socio-economic programs and policies should continue, the current major proposals on procurement reform appear to neglect women-owned businesses almost entirely. We believe that the current legislation fails to acknowledge adequately Congress' commitment to women-owned businesses. The bills do not directly refer to women-owned businesses in their discussion of the socio-economic programs to be continued and expanded across the government. It is not clear whether this is deliberate, an oversight or an assumption that women-owned businesses are included. Whatever, the reason, before the process goes any further, the Council believes that the legislation must be clarified to make it crystal clear that women-owned businesses are included. Specifically, the Council recommends the following provisions, many of which are drawn from H. R. 2357:

* Congressional creation of a separate numerical goal for contracting <u>and</u> subcontracting to women-owned businesses, to be added (1) to Section 39004 of the November 16, 1993 proposed Amendment to H.R. 3400, (2) Section 15 (g) of the Small Business Act, and (3) to Section 1207 of P.L. 99-661 which should be expanded to cover civilian as well as defense agencies.

* As it does for socially and disadvantaged businesses, the legislation should clarify that it is not intended to amend, modify, or supersede the current statutes which do specifically cover women in the setting of goals.

* The current requirements for prime contractors to have subcontracting plans, including Section 8(d) of the Small Business Act, should be retained and expanded to include women-owned businesses.

* The RTC requirement which designates that when reviewing and evaluating proposals for the award of contracts, additional incentives must be provided for minority- or women-owned businesses should be extended to all civilian and defense procurement.

* Continue strong support for the 8(a) program which is benefitting minority women-owned businesses.

Increasing the access of women-business owners to federal procurement is not only good for the women-business owners; it is good for the economy. In its landmark hearings that led to the enactment of H.R. 5050, this Committee concluded that it was not only good socio-economic policy to have the government act in ways which increase access for women-owned businesses to federal procurement, but it was good economic policy. Transmitting its report, this Committee concluded:

> It is impossible to overestimate the social and economic importance of this new economic reality....Women-owned businesses may provide the cutting edge--and the American advantage--in the worldwide economic competitiveness fast upon us. The loss to the Nation would be incalculable were public policy makers not to foster this development to the fullest extent possible.

The National Women's Business Council is concerned that none of the proposals before you today -- not H.R. 2238, not H.R. 3586, not the National Procurement Review paper, -- go far enough to really improve the opportunities for women-owned businesses in the federal market place. While the future holds great promise once the reforms are fully implemented, without changes to the status quo during the transition period, no federal agency or prime contractor will have reason to change the way they do business and seek out women-owned businesses.

ADDITIONAL MEASURES TO CHANGE THE STATUS QUO

Pilot Project: Goals alone are not enough. They are the beginning of the process. The evidence compiled by the SBA's Office of Women's Business Ownership suggests that agencies that have a commitment from the top and a person dedicated to outreach to women-owned businesses have produced significant increases in actual contract awards.

For this reason, the Council recommends that a pilot study be included in any procurement reform legislation. This pilot study would target three agencies, HHS, EPA, and GSA, for identification of intensive outreach/contract award initiatives which really work to reach women-owned businesses. One aspect of the study would be the affirmative designation of women-in-business specialists in the targeted agencies to work with the SBA's Office of Women Business Ownership to develop, administer and evaluate pilot program initiatives. These agencies were selected because of their level of contract dollars and the commitment of senior officials in these agencies to promote access of women-owned businesses.

Standard Definition: The Council recommends that the government use a single uniform definition of women-owned business for procurement purposes and continue efforts begun in the Department of Transportation to effect a single definition for use by states and localities receiving DOT funds. Attached to our testimony is a definition developed by the Council.

In hearings conducted by the Council in Denver, Colorado and Arlington, Texas on women-owned businesses' experiences in high technology, women business owners talked of their frustration in identifying and qualifying for government set-asides and incentives to small and disadvantaged businesses. Even federal agencies are not consistent in their definitions, and each state develops its own guidelines. We believe that the federal government must set a standard for procurement purposes. The standard developed should also apply to federal data collection efforts. As you are undoubtedly aware, for example, Census information is collected using one definition and procurement statutes and procedures use another.

The Council also endorses several proposals which appear in the procurement bills before you.

* Designate women-in-business specialists in all agencies (H.R. 2357) to work closely with the SBA Office of Women's Business Ownership.

* Impose obligation on all procurement officials to engage in affirmative action to identify and solicit offers from small businesses owned and controlled by women or by socially and economically disadvantaged individuals. (H.R. 2357).

* Congressionally mandate establishment of the Office of Women's Business Ownership in the SBA (H.R. 2357).

* Obligate the Director of Federal Procurement Policy to develop policies to ensure that small businesses owned and

controlled by women or by socially and economically disadvantaged individuals are provided with "Maximum practicable opportunities" to contract and subcontract. (Section 503(d) of H.R. 2238 and Section 34001 of the Amendments to H.R. 3400).

* Require a study and report by the Director for Federal Procurement Policy, the GAO or the Comptroller General on progress to insure that the number of small businesses owned and controlled by women or by socially and economically disadvantaged individuals receiving federal contracts and subcontracts increases significantly. (H.R. 2357 and Section 34001 and 39003 of the Amendments to H.R. 3400).

* Make effectiveness in outreach to small businesses owned and controlled by women or by socially and economically disadvantaged individuals one of the elements of the performance evaluation of government contracting officers (Section 39004 of the Amendments to H.R. 3400).

In closing we might note that a review of the current comprehensive procurement reform bills reveals but a single place where women-owned businesses are mentioned, in Section 39005 of the Amendments to H.R. 3400 which establishes education and training programs to increase the participation of women-owned businesses, as well as businesses owned by socially and economically disadvantaged individuals and other minorities. While we appreciate the gesture, that simple provision does nothing to bring about the change we seek.

We appreciate the opportunity to appear here today and look forward to working with you and the members of the other Committees of the House and Senate as these bills progress through Congress.

RECOMMENDATION #1

A Standard Definition of "Woman-Owned" Business

There is currently no standard definition of "woman-owned" business for federal government usage. The NWBC recommends the following wording for all federal government purposes. (Please note that the SBA is currently promulgating regulations along these lines.)

DEFINITION

A woman-owned business is a business concern with at least 51 percent unconditional ownership and control by a woman or women. Such unconditional ownership must be reflected in the concern's ownership agreement; and the woman, or women, must manage and operate the business on a daily basis.

JOINT VENTURE AGREEMENTS

A woman-owned business must control the performance of the contract awarded to the joint venture for the venture to qualify as a woman-owned business.

SUBCONTRACTING

A business concern shall not be qualified as a woman-owned business unless it meets the criteria mentioned above and it controls a significant portion of its contract with its own facilities and personnel.

CONTROL AND MANAGEMENT

An applicant concern's management and daily business operations must be controlled by a woman or women. An applicant concern must be managed on a full-time basis by one or more women. The U.S. Small Business Administration will consider, on a case-by-case basis, the actual management involvement of women in the applicant concern. A woman must hold the highest ranking in the organization.

The woman or women shall control the Board of Directors of the applicant concern, either in actual numbers of voting directors or through weighted voting. Men may be involved in the management of an applicant concern, and may be stockholders, partners, officers, and/or directors of such concern. However, these men may not exercise actual control or have the power to control the applicant concern.

Franchise and License Agreements

> In determining whether the franchisor controls, or has the power to control, the restraints relating to standardized quality, advertising, accounting format and other provisions, imposed on a franchisee by its franchise agreement shall generally not be considered, provided that the franchisee has the right to profit from its efforts and bears the risk of loss commensurate with ownership. Even though a franchisee may not be controlled by the franchisor by virtue of such provisions in the franchise agreement, control could arise through other means, such as common ownership, common management or excessive restrictions upon the sale of the franchise interest.

RATIONALE

The late Gillian Rudd, in introducing the National Foundation for Women Business Owners/Cognetics study of women owned businesses, stated

> "The 1992 Presidential initiative to improve this country's economic statistics omits any mention of one of the fastest growing segments of the economy, women business owners. Federal economic statistics are numbers that move the economy nationally and internationally. It is vital to policy makers, the business community and researchers that these statistics be of the highest quality and provide a true reflection of today's economy. To ignore women-owned businesses is to neglect one of the decade's major social and economic changes."

Current data from a variety of sources indicates that an astounding growth is taking place in women-owned businesses—that they are a far larger factor in our economy than is generally realized, anywhere from thirty to forty per cent of all businesses in this country. Yet there cannot be an accurate count without a generally accepted definition of what constitutes a woman-owned business.

At both the Denver hearing on telecommunications and the Arlington, Texas hearing on high technology, women business owners talked of their frustration in identifying and qualifying for government set-asides and incentives to small and disadvantaged businesses. Even federal agencies are not consistent in their definitions, and each state develops its own guidelines. The federal government can and must set a standard for both data collection and procurement purposes.

The Missouri Pilot Study which the Council commissioned was designed to assess the possibility of complete and accurate data collection regarding women-owned businesses. This study did indeed provide a useful model for such studies which can produce accurate data on a national level, data eagerly sought by both government and private entities. In order to complete this study, a specific definition of "woman-owned" had to be devised. That definition is reflected in this recommendation, and in the regulations currently being promulgated by the U.S. Small Business Administration.

COMMENTS ON THE PROPOSED REGULATIONS ON THE COMMUNITY REINVESTMENT ACT PREPARED BY THE NATIONAL WOMEN'S BUSINESS COUNCIL

The National Women's Business Council has noted the proposed new regulations for the Community Reinvestment Act (CRA) as published in the Federal Register on December 21, 1993. We are pleased to submit our comments on them.

The Council, created by Congress in the Women's Business Ownership Act of 1988 (P.L. 100-533), is charged with reviewing the status of women business owners nationwide, including progress made and barriers that remain in order to assist such businesses to enter the mainstream of the American economy. Included in our mandate is review of "ways to promote greater access to public and private sector financing..." for women business owners. On this and other women's enterprise issues, the Council makes annual policy recommendations to the President and Congress.

The Council has six bipartisan private sector members appointed by Congress and three public sector members: the Secretary of Commerce, the Administrator of the Small Business Administration, and the Chairman of the Federal Reserve or his designee. Our comments are the consensus view of the members of the Council, except for the member representing the Federal Reserve, who has recused herself.

Our comments are primarily concerned with how the regulations affect the interests of women business owners, including minority women business owners. They reflect what we have learned since 1988 in our review of access to credit issues in hearings and meetings around the country and in discussions with women business owners and representatives of community groups that provide technical assistance, training, or financing to women's businesses. We have had discussions with bankers and banking regulators and have reviewed studies on women's access to credit, several analyses of the proposed regulations, and the records of past Congressional hearings on the CRA as administered under the existing regulations and on issues raised by other fair lending legislation. Our review has been conscientious but not exhaustive, and we do not claim that our comments address all the technical issues or speak for all women business owners.

To help insure that you hear from others who are immediately concerned with the proposed regulations as they affect women, we have sent a summary of our comments to a substantial sample of organizations across the nation that serve or represent women business owners. We hope they will express their views, differing or agreeing, to you.

The Council applauds, overall, the new emphasis on actual bank performance over the old process tests, the attempt to bring greater clarity into what is required, the new enforcement provisions to put teeth into those requirements, and the effort to reduce the administrative burden of compliance on the banks. Our comments and suggestions are intended to promote those objectives while at the same time making the regulations help bankers be more responsive to the needs of women entrepreneurs.

We support the threefold rating of banks on their lending, service, and investment performance. On the other hand, we feel that the rating system and the data collection requirements that underpin it need both fine-tuning and some larger changes. In our comments, we have flagged issues and, in some cases, proposed ways of dealing with them. In doing so, we have tried to work within the proposed framework. We do have some doubt, however, about the general soundness of the market share approach to evaluating lending performance. A different approach may be needed, and we comment briefly on one alternative possibility below.

The market share approach to rating lending performance

We have two major concerns about the market share approach to rating lending performance. The first is that we doubt it can promote more direct lending by banks to the largest group of women entrepreneurs, those who have small scale, start-up or new businesses, with early credit needs under $50,000. The second is that we think the market share approach will be difficult to apply predictably, fairly, and objectively to bank lending performance in general.

Serving Small, Early Stage Women's Businesses

Banks, by and large, consider this market to be too risky and unprofitable and do not do such lending. The gender of the owners may or may not be a factor in this judgment. The issues, in any case, go beyond that. Banks could make more loans to this market without jeopardizing bank soundness or profitability, especially long-term profitability, and the CRA should help promote this. The market share test, unfortunately, fails to do that.

Instead, the proposed regulations offer the banks a chance to help alternative lenders serve this market. By offering banks credit for investments in the activities of community business development organizations or their loan funds, or for indirect bank lending made through suchlenders, the regulations implicitly recognize that banks will mostly not serve this market directly.

Encouragement of this kind of bank investment is valuable, and we support it. We have some reservations about overbroad upgrading of lending ratings because of high investment ratings, and we discuss them below. In general, however, we favor investment incentives and some degree of such upgrading. In fact, we think the regulations should specify more than they do that investments in organizations which serve women entrepreneurs are looked on with favor. Women business owners and others need alternative business development and lending organizations, and the organizations themselves need more resources. However, community development lenders are not substitutes for banks.

Banks continue to be the major source of small business lending in the economy. Bank credit and other banking relationships are important to any business attempting to succeed in the mainstream. There needs to be great care about taking steps that might lead to segregating credit availability for the majority of the nation's small businesses in non-bank, non-regulated, thinly capitalized, less widely available and generally less stable, alternative credit channels. Strengthening community development lending to small businesses should be done, but in conjunction with strengthening bank lending to small businesses and building bridges between community lending and bank lending.

There is now a considerable gap between them. Loan funds typically report that several years of good business and credit repayment performance by their small business clients does not lead to bank credit. Banks continue to set traditional high minimum dollar levels for commercial lending, demand large amounts of collateral, and require substantial owner equity in the business. In general, these requirements are fairly rigid, and loan officers have no incentive, and, often, insufficient expertise or training, to structure loans in ways that help businesses with non-traditional borrower profiles, even those with excellent records as alternative borrowers. This institutionalized aversion to more flexible small business lending is reinforced by the way safety and soundness is judged by bank examiners.

We do not see how the market share test addresses or provides a counterincentive to the bank and regulatory policies which support current practices. These policies and practices amount to systemic disincentives to the kind of lending most needed by the majority of women entrepreneurs. Since this kind of lending is usually considered to be unsound and is not generally done by banks, either in high income or low and moderate income areas, the proposed market share test, based on area comparisons of loans considered to be sound, will have nothing to compare. The small business loans that the banks make will be those that meet traditional credit standards, and neither the requirement for a good mix of mortgage, consumer and small business loans nor comparisons among census tracts or bank competitors' lending patterns can realistically be expected to change this.
This is economically counterproductive. Small scale women's businesses are the most dramatically expanding share of the small business renaissance the country has been experiencing since the early 1970's. Women are entering business at much higher rates than men. From 1979 to 1989, women-owned sole proprietorships increased at an annual rate of 12.6 percent, more than twice the rate of increase for men-owned sole proprietorships. Between 1982 and 1987, the number of women owned businesses increased by 57.4 percent, more than four times the rate of entry of all businesses. In 1989, women owned 31.3 percent of all non-farm sole proprietorships -- nearly five million businesses. This does not include well over a million women-owned corporations and partnerships which have also expanded greatly in number and size.

Average receipts for non-farm sole proprietorships owned by women in 1987, however, were \$17,889 as compared with \$54,594 for those owned by men. The great majority begin and remain very small. They are predominantly retail and service businesses with low costs of entry but with much need for working capital. By their very numbers, they are important sources of employment and job creation. Their stabilization and expansion could provide many benefits to the economy and the communities they serve. A shortage of credit for working capital is a major cause of their persistent economic marginalization. The CRA should be promoting more direct lending by banks to the many among these women-owned businesses which have growth potential and good management but do not meet conventional credit tests. The market share approach to rating lending performance, as proposed, does not do this.

This problem might be alleviated, and the market share approach to most lending left in place, by adding a new requirement. This would call for both large and small banks to establish a "CRA loan zone" for small business loans below $50,000 to non-traditional borrowers. The credit standards used would be less narrowly defined than for the banks standard porfolio, but banks would still look for businesses likely to be able to repay their loans. The zone could be a designated percentage of a bank's risk capital, not so small as to be insignificant and not so large as to materially affect a bank's soundness even if every zone loan were to default or prove unprofitable.

Examiners could judge the safety and soundness of the zone loans not on the risk profile and performance of each loan, but on the performance of the entire zone portfolio of loans. This could allow banks to balance risks and returns more creatively without materially threatening the depositors' (or examiners') concern for safety and soundness.

No loans that would be made under the banks' standard credit rules and ordinary business strategy would be counted within this zone. Loans to women or minorities would not automatically be put in the zone. Only loans to women or minorities that did not meet the usual, more narrowly defined standards would be zoned, and examiners would penalize bank attempts to get a high zone rating by putting loans in the zone that should have been made in the regular course of business. Examiners would also look for evidence that start-up and expanding businesses owned by women and minorities were getting loans outside the zone. Every business loan officer would be encouraged to make some zone loans and given a boost in his or her performance rating for making good loans in the zone. Without such a requirement, or something like it, we see little hope that banks will tend to this market directly in their mainstream of lending, and their capacity to serve it will continue to dwindle.

In judging small business lending performance, we suggest that business loans be considered to be located either in the census tract within a bank's service area where the business's principal activities occur, or in the census tract within the service area where the owner lives. We believe there are potential local economic and social multiplier effects both from a business' presence in the community and from the local economic transactions and role modelling presence of a business owner. Business opportunities for low and moderate income people living in low and moderate income areas should be encouraged outside their area of residence as well as within them. Where a bank chooses to credit the business loan to where the owner resides, the principal place of the owner's business could be outside the bank's service area. If so, it would have to be near enough to the bank's service area to be reasonably convenient to bank oversight.

The Workability of the Market Share Approach

We think the market share approach to measuring bank lending performance will be difficult to apply fairly and will be subject to much argument. This may prove to be a substantial burden on both banks and the regulatory system.

Problems are likely to arise in applying market share comparisons where there is only one bank in a service area, where service areas of competing banks only partially overlap, or where differing branch locations and other factors like a bank's past history and image make the playing field decidedly not level. Since the lending ratings call for such examiner judgments as whether or not a bank's market share in one area "significantly exceeds" its share in another, or is only "roughly comparable" or comprises a "substantial" percentage of a certain type of lending and then further complicates such judgment calls by asking examiners to weigh each type of lending as it relates to the other types in terms of several factors each of which is subject to different interpretations, the ratings are likely to be occasions for much dispute. They are rebuttable, in any case, and only time and the development of regulatory precedents could bring clarity to such a system. These ambiguities in the rating system may be necessary to allow room for flexibility and fairness, but they also invite community and bank protest.

Perhaps a more fundamental objection is that a bank cannot know how well it is doing on lending as it proceeds with its strategy. Ratings will depend on an "after the fact" assessment of the performance of competitors when it is too late to adjust strategy. It seems possible that a bank with the best intentions and an active pursuit of lending opportunities in all parts of its service area might still fail to gain market share in low and moderate income areas or compare well to competitors in those areas. This could be due to a short supply of sound lending oppportunities or because of hard to detect competitive advantages possessed by other banks. To protect their lending rating, banks, paradoxically, could very well deemphasize lending and concentrate on getting a high investment rating which they can control. Under the proposed rules, an outstanding investment rating can upgrade a lending rating by two levels, and a high satisfactory investment rating can upgrade a lending rating by one level. While this upgrading possibility could have positive effects on investment, its effects on lending could be negative.

If the market share test cannot provide clearer rating guidelines for performance in the varying competitive and community conditions which can reasonably be anticipated, another type of performance rating system ought to be considered. New York State has recently proposed a different approach to performance ratings under its state CRA. The State's approach is also untested, but it suggests how a system could have clear objectives and be simple to administer once a broad consensus existed on which aspects of performance should be measured.

The New York approach gives banks weighted dollar credit for each dollar loaned or invested in the community in specified types of loans and investments. For example, each dollar in loans to small businesses is counted as $1.50 and each dollar in loans to low and moderate income consumers is counted as $2.OO while a dollar lent to other types of consumers gets no premium. The dollar credits for each specified type of loan or investment are added together to provide a weighted total of "community investments." A bank gets a preliminary rating based on the ratio of its total community deposits to its weighted total of community investments. This would be calculated as a percentage. The preliminary rating is subject to adjustment for other factors such as branch openings and closings and special efforts by a bank to comply with the law. The New York scheme sets four rating levels, with the lowest "substantial non-compliance" rating set at a ratio of less than 15 percent of community deposits used for community investment and the highest "outstanding" rating set at a ratio of more than 30 percent.

Such a system appears to set more clearly targeted reinvestment incentives, provide enough flexibility among target lending and investment categories to avoid credit allocation, and create much less occasion for subjective judgments, time consuming and costly rebuttals, or negotiation over adverse ratings than the proposed market share approach. We point to this not necessarily to recommend this particular approach, but to indicate that other clearer performance tests may exist that could be adapted and used for the Federal CRA. It seems important to get the revamping of CRA regulation right the first time and not to rush ahead with the presently proposed scheme if it does not clearly meet the President's objectives. We do not want to see the momentum of change stopped. Hopefully, momentum can be maintained while adjustments are made. The emphasis on performance in lending, service, and investment ought to be kept, but there may be better, simpler ways of rating performance in these areas.

The investment upgrade for lending ratings

The proposal to allow an upgrade of a bank's lending rating by two levels if it earns an outstanding investment rating or by one level if it earns a high satisfactory investment rating has a good and a bad side. The bad side is that it could easily undercut direct lending of all types by banks. They could well be tempted to buy their way out of any market with which they were mostly unfamiliar and uncomfortable by giving money away. The good side from a women's enterprise point of view is that investments by banks in alternative small business lending organizations or small business development groups serving women could bring these valuable efforts much needed resources. This could increase credit availability to the start-up and emerging small scale woman entrepreneurs who are currently underserved.

We suggest that this upgrading device be more sharply defined to minimize bad possibilities and strengthen good ones. One possible approach would require some changes in the proposed investment rating to distinguish investments that relate directly to lending from those that are more general community investments. Only investments that directly promote expanded access to credit might count toward a lending upgrade, and a two step upgrade might only be allowed where a bank's investments directly promoted access to the types of lending in which it is deficient. Finding or designing such investments might usefully focus a bank's attention on the credit needs it does not meet. A ranking in the general investment category should be a factor only in the overall investment rating and should not affect lending upgrades. An outstanding overall investment performance rating ideally should require an outstanding rating in both the lending investment and general investment categories.

Where programs to promote non-bank lending to markets not served by a bank do not operate in a bank's service area, banks should be offered regulatory incentives to create and support them, either alone or with others. The existing or start-up programs in which banks invest should not focus narrowly on providing loans. Experience shows that access to credit for non-traditional entrepreneurs requires programs that help create well planned businesses and confident, qualified borrowers as well as making loans available. A proliferation of such programs will eventually bring new customers to bank doors.

It will take time and patient investment to cultivate this new market for banks. It took years of investment in community
development organizations to develop their capacity to build and rehabilitate low income housing on anything like a major scale. It will undoubtedly take years to develop the capacity of community based organizations to help early stage, small scale enterprises survive and grow in rapidly changing market conditions. It is not easy work, and the field is in the early part of the learning curve. Still, a sense of "best practice" is rapidly developing and spreading in response to pilot programs funded mainly by government and foundations. One lesson already is that women-run programs specifically targeted to low and moderate income women entrepreneurs are particularly effective with this population. The proposed CRA regulations on investment should steer banks into investing in such women-serving programs with greater emphasis than they do now.

The investment rating for retail banks

Though we support an investment rating as part of a retail bank's overall performance rating, we find the standards for total investment performance unclear. We urge that the regulations provide better guidelines to banks and examiners for determining what ratio of total investment dollars to a bank's risk-based capital will be considered outstanding, high satisfactory, low satisfactory, in need of improvement, and in substantial non-compliance. The use of words like "substantial" or "very significant" as applied to such ratios to determine performance ratings is too vague.

Qualified investments as defined in the regulations should include mention of benefit to women and minorities. In addition, examples should include women's business development organizations and organizations that provide child and dependent care.

The strategic plan option

We support giving banks the option of operating under an approved two year CRA strategic plan instead of having to submit to the lending, service, and investment tests. We support it, however, only for certain banks. A strategic plan conceived by a bank without early and continuing consultation on its design and implementation with community groups could all too easily fail to serve the real needs of the community. No bank should be given the strategic plan option if it cannot provide satisfactory evidence of initial and on-going collaboration with credible, local, independent, community based organizations with development experience and a record of serving the economic development interests of women and minorities in the community.

This requirement probably will severely limit the reach of the option, since in many bank service areas no such organizations operate. Hopefully, it will act as an incentive to banks to help others in the community create such groups. In rural areas where there may be only one bank and only one development organization operating in a bank's service area, it is probably better to hold the bank to the objective lending, service, and investment tests. Rural banks have much local power, and pressure on them is probably best applied impersonally from the outside. Collaboration with local development activists may then be productive and not contentious.

The regulations also need to include published guidelines on how such plans will be initially assessed and approved. While the requirement of measurable performance goals and having to meet a preponderance of these goals to avoid submission to the three performance tests seems to guarantee that the plans will lead to action, guidelines on plan elements are needed. One such guideline is a requirement that the plan have adequate performance goals for addressing the credit needs of the full spectrum of existing and potential women and minority business owners either directly or indirectly.

Loan data: collection, reporting, and disclosure

The Council urges strongly that the data collection requirements on loans made by both large and small retail banks as defined in the regulations be expanded. We are aware of past bank protests that data collection is burdensome and costly and takes away from resources which could be used directly for community reinvestment We are not persuaded by these protests. Studies have shown that both time and cost burdens are modest and with advancing computer techniques growing ever more manageable. The data collection we propose is consistent with and appropriate to bank responsibilities.

Borrower and loan denial data are needed to determine lending patterns, identify any disparities in service to groups such as minorities and women which have alleged discriminatory practices in the past, evaluate why any persistent disparities occur, and design better products or special programs to eliminate unjustified disparities. While the CRA is addressed to communities as geographically defined, it is also addressed to groups of people living in them, a focus evident from the proposed regulations themselves. The regulations currently rely on undifferentiated census tract population and income data as indicators of who banks are serving. This is simply too crude for adequate accountability.

We are convinced that data collection under CRA should include the race, gender, and income levels of the borrowers, as is currently required of more than 9,000 banks and mortgage lenders under the Home Mortgage Disclosure Act (HMDA). In addition, a common checklist of reasons for the denial of business loans should be developed by the four bank regulatory agencies, possibly in consultation with representative community groups and bankers. This checklist should address the key factors entering into such denials. Bankers making loan decisions should be required to check off the relevant factors and to indicate the relative importance of these factors in the denial decision. A simple circling of numbers on a scale of one to five next to the check-off space, or something similar, could accomplish this. Scoring sheets could be coded and computerized and should be able to be transmitted electronically to Federal regulators for automatic data processing. We feel this level of detail is necessary to minimize the need for extensive follow-up studies.

Further, the four tier levels of small business annual gross sales proposed for demarcating groups of small businesses which apply for or receive loans should be adjusted. As currently constructed, the lowest size tier is too high to provide information about the loan response to the smaller small businesses which low and moderate income people, including women, typically start or own. It should be reduced from $250,000 to no higher than $100,000 in annual gross sales, and preferably no higher than $50,000. The need for this is evident given the average receipt figures cited previously for sole proprietorships owned by women and men.

Small bank assessment standards

The Council notes studies showing that most small business lending is done by small banks and that more than half of the "Needs Improvement" and "Substantial Noncompliance" ratings given out between July 1, 1990 and December 31, 1991 went to banks with assets under $250 million. Of those low ratings, 83 percent went to banks with under $100 million in assets. This does not make a good case for allowing banks with under $250 million in assets ("small banks" as defined in the proposed regulations) to have the privilege of less stringent, performance assessment standards as proposed.

We believe small banks should be subject to the same performance standards as the large banks and that the expanded data collection requirements we advocate should extend to them as well. To avoid a disproportionate regulatory burden on small banks, special care may need to be taken in other areas, such as reducing the duplication of bank examinations or streamlining the examination process. The different performance assessment methods proposed for the very section of banking that dominates small business lending would, in our opinion, undercut the implementation of the CRA in the small business lending area and make useful performance comparisons between large and small banks more difficult. As banking continues to become a more consolidated and centralized industry, such performance comparisons become ever more critical to informed legislative and regulatory banking policy.

General concerns

We believe it is unfair to require banks to be solely responsible for community reinvestment when other financial institutions which compete with them for business and have taken substantial market share from them are not subject to the CRA. We suggest that the bank regulatory agencies consider recommending to Congress and the President an extension of at least some reinvestment obligation to financial institutions that compete with banks. While non-banks do not have direct access to the Federal Reserve's discount window and do not have Federal deposit insurance, they depend to a significant extent, directly or indirectly, on the existence of a healthy and stable banking system. Such an extension of community reinvestment responsibility would not only be fairer, it would also greatly expand the resources available for such reinvestment. This is an outcome we strongly support.

Finally, we want to register our concern about the uneven quality, consistency, and independence of bank examiner judgments, and the burdensome practice of holding examinations of banks at different times by more than one regulatory agency. Bank examiners need much better training in what community development lending and investing is about and clearer guidelines for judging bank performance. Perhaps a special cadre of CRA examiners needs to be developed to work alongside safety and soundness examiners. Examiners need to know that women business owners in general have excellent loan repayment records and are an important and growing segment of the small business credit market. They should be familiar with Congressional testimony about sex discrimination in lending and related studies. They should be on the lookout for low rates of lending to women, for collateral requirements that are higher for women-owned businesses than for comparable businesses owned by men, for unwarranted bank resistance to making loans to women-owned service businesses, for failures to market to women and for discriminatory attitudes and practices that discourage women from applying for loans.

OPENING STATEMENT
OF
THE HONORABLE JAY DICKEY
Fourth District - Arkansas

BEFORE THE SMALL BUSINESS COMMITTEE

REGARDING A HEARING ON
SMALL BUSINESS ADMINISTRATION REAUTHORIZATION LEGISLATION

MAY 11, 1994

Mr. Chairman, thank you for holding this, third in a series of hearings, regarding the reauthorization of the Small Business Administration (SBA), and implementing a number of changes as proposed by this committee and the SBA itself.

As the committee continues to hear testimony regarding the reform efforts of the SBA and its Administrator, Erskine Bowles, I wanted to reiterate my general support for the proposals to leverage a greater number of funds by reducing the subsidy rate, and by shifting all programs from direct to guarantee programs. Additionally, 503 pre-payment penalty reforms, SBIC streamlining, and other issues assure me that SBA is genuine in its efforts to reevaluate the needs of its customers - Small Businesses.

I look forward to the testimony provided by the panel of witnesses before us today. Thank you.

COMMITTEE ON SMALL BUSINESS

JOHN J. LaFALCE, CHAIRMAN

HEARING ON SBA AUTHORIZATIONS

MAY 11, 1994

The Committee will come to order.

Today's hearing is the third in the current series on re-authorization of programs administered by the Small Business Administration, and related independent bodies.

The administration has proposed two bills which I have introduced by request. The first, H.R. 4297 would authorize specific program levels at which the major financial programs would be permitted to operate over the next three years, and make improvements in the terms and conditions of the assistance they provide; and the second, H.R. 4298, would reduce the onerous pre-payment penalty inflicted on small businesses which received financing under the old section 503 program which was funded by the Treasury Department.

In addition, last week Mrs. Meyers joined me in introducing legislation to fine-tune the authorization for the development company guarantee program. This program, which creates jobs by providing long term capital for plant and equipment, is expected to exhaust its available resources this summer unless it is increased. H.R. 4322 would provide another $300 million in guarantee authority at a cost of approximately $1.5 million, money which would be shifted from other SBA programs.

This morning we are pleased to have a panel of witnesses representing the financial institutions which participate in programs administered by the SBA. I look forward to receiving their input, particularly since this is the first time these associations have appeared before us to testify on an administration budget request to more than double the amount of guarantees. In the past, other administrations have sought freezes or cuts, rather than increases. This should dramatically improve the tenor of the testimony.

Do other Members have remarks?

STATEMENT OF REPRESENTATIVE JAN MEYERS
"SBA REAUTHORIZATION PROPOSAL"
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
MAY 11, 1994

Mr. Chairman, thank you for convening our third hearing to date on the SBA's reauthorization proposal. Obviously, from the composition of our panel of witnesses, we are focusing on SBA loan programs, most notably 7(a) and 504 development company loans, and some new lending initiatives put forward by the SBA. In addition, I believe we will also receive testimony on H.R. 4298, the SBA's prepayment debenture proposal for 503 loans.

The SBA has proposed substantial increases for the 7(a) guaranteed loan program, and for 504 development company loans, for fiscal years 1995 through 1997. Not surprisingly, the groups represented today strongly favor these increases. While I have supported these SBA lending programs, which have provided many small businesses much-needed access to capital, I must raise my long-standing concerns about the reliance many banks have developed on SBA lending programs.

Unfortunately, some banks have all but stopped lending to small business unless a large government guarantee is attached to the loan. SBA lending programs should, and do, play a critical role in increasing credit availability to small business. However, these programs do have funding limitations. Therefore, I would ask our witnesses to comment on why lending institutions are continuing their reluctance to lend to small business and what, short of guaranteeing every loan made to a small business, needs to be done to improve that lending climate for this important segment of our economy.

Mr. Chairman, thank you for calling these important witnesses before the Committee. I look forward to their testimony.

STATEMENT BY CONGRESSMAN JIM RAMSTAD
BEFORE THE HOUSE SMALL BUSINESS COMMITTEE
May 11, 1994

REAUTHORIZING THE SBA

Mr. Chairman, thank you for holding yet another hearing on the reauthorization bill for the Small Business Administration (SBA).

I certainly hope that as we continue to examine the SBA's legislative proposal this year, the recurring problems we've seen can be avoided and the SBA can do what it was designed to do.

Mr. Chairman, I look forward to reviewing the reauthorization proposal with today's witness.

Statement
by
The Honorable Lucille Roybal-Allard

Committee on Small Business
Hearing on the Small Business Administration Reauthorization

May 11, 1994

Thank you, Mr. Chairman.

It is, as always, a pleasure to be here and a pleasure to welcome our distinguished guests. I look forward to your testimony.

As the President has said and as Chairman LaFalce has said, small business is and must be a top priority in this Congress and in the country.

Administrator Bowles has brought a new emphasis on efficient and effective customer service to the Small Business Administration. I applaud his efforts and the new spirit at the SBA.

In the SBA budget request, I support the almost $9 billion dollars in 7(a) loan guarantees, the empowerment zone funding, and the prepayment penalty relief, although limited, for the old 503 loan program.

I am concerned, however, about the elimination of funding for the National Women's Business Council and cuts in the Women's Demonstration Program.

I know that we will have the opportunity to discuss those cuts and to analyze SBA priorities as the legislative process goes forward.

I look forward to working with Administrator Bowles, with Chairman LaFalce and with members of this committee to make sure that small businesses and the jobs they create remain our top priority.

Thank you.

OPENING STATEMENT OF CONGRESSMAN BILL ZELIFF (R-NH)

Small Business Committee

May 10, 1994

Mr. Chairman, thank you for convening this hearing to continue our study of the Small Business Administration (SBA) reauthorization. I am sure the witnesses today will provide valuable insight into the strengths and weaknesses of this package.

These hearings have demonstrated that SBA programs are very effective in helping small businesses survive the many challenges they encounter while allowing them to grow and create jobs for Americans.

However, these hearings also have demonstrated the potential pitfalls of not using proper constraints and oversight.

One of the key players in these programs is the lending associations, and I am very interested to hear their perspective on how well the federal government is doing monitoring these programs. I am concerned about whether unfunded mandates and paperwork requirements have imposed an unnecessary hardship on these lenders. I am concerned about whether they see mismanagement and waste--lost taxpayer dollars--as a problem in the industry and the bureaucracy which is not being addressed.

I am concerned we are asking the programs to accomplish too much in the way of social reform, instead of concentrating on making good loans to quality businesses which will create jobs.

Again, thank you, Mr. Chairman. I look forward to finding the answers to some of these questions.

STATEMENT OF

DENNIS J. JONES

PRESIDENT

HINSDALE BANK AND TRUST

HINSDALE, ILLINOIS

FOR

THE AMERICAN BANKERS ASSOCIATION

ON

THE SMALL BUSINESS ADMINISTRATION'S

REAUTHORIZATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

MAY 11, 1994

AMERICAN BANKERS ASSOCIATION
1120 Connecticut Avenue, N.W.
Washington D.C. 20036

Mr Chairman and members of the Committee, I am Dennis Jones, President of Hinsdale Bank and Trust, in Hinsdale, Illinois. I have been directly involved with the Small Business Administration (SBA) guaranteed lending programs for 15 years and I am presently a member of the American Bankers Association's (ABA) Small Business Executive Committee. I am here to testify on behalf of the ABA and to voice strong banking industry support for the Small Business Administration's guaranteed lending programs.

The ABA is the national trade and professional association for America's commercial banks, from the smallest to the largest. ABA members represent 90 percent of the industry's total assets. Approximately 94 percent of our members are community banks with assets of less than $500 million. I welcome the opportunity to present ABA's views on H.R. 4297, the Small Business Administration Amendments of 1994, and H.R. 4298, which allows for the prepayment of debentures issued by state and local development companies. Specifically, I will be focusing my remarks on the SBA's guaranteed lending programs, including those programs designed to complement the successful SBA section 7(a) program in an effort to increase lending to a more diverse group of potential small business borrowers.

Mr. Chairman, let me begin by thanking you for your sustained support for the SBA, and its vital guaranteed lending programs. You are to be commended for your continued efforts in ensuring that adequate funding for the 7(a) guaranteed lending program is maintained -- particularly in recent years when funding has been scarce, and supplemental appropriations became necessary to meet the program's increasing demand. As I understand it, there are adequate funds under the 7(a) program to meet the current fiscal year demand, as well as SBA authorization language to ensure that the program is fully funded for fiscal year 1995 and beyond. It is our hope that this authorization, as well as its necessary appropriations, will move through the Congress in a timely fashion.

The ABA not only supports fully funded SBA programs, we also support the lending initiatives outlined in H.R. 4297 which seek to provide both the small business borrowers and the lenders, alike, with additional flexible lending tools designed to assist a variety of small businesses not financially situated in a manner which would allow them to obtain either traditional bank credit or the current 7(a) guarantee. These new SBA initiatives which merit banker support include a low document loan program for loans up to $100,000, a small loan express program enabling lenders to use their own forms, a new "Greenline" program providing borrowers with a modified line of credit financing, and a number of pilot projects designed to target specialized sectors of the small business market.

Mr. Chairman, the banking industry has been a major participant in various SBA programs for years. Approximately 10,000 banks have been involved in the SBA loan programs over the past 10 years. A primary reason for widespread bank participation has been the workable nature of the public/private partnership provide by SBA guaranteed lending program, which was authorized under Section 7(a) of the Small Business Act of 1953. This program benefits the national economy and individual communities through the jobs created and revenues produced by small businesses involved in the program.

As you are well aware, small businesses employ approximately 60 percent of the private work force in this country and, in recent years, have accounted for nearly all of the economy's net job growth -- with most of the new jobs being created by firms with fewer then twenty employees. Because small businesses in general have limited access to capital markets and other alternative sources of credit, they are likely to be more dependent on banks to fund their operations. The SBA loan guarantee program is an extremely important tool which enables banks to assist many eligible start-up companies and expanding companies that desperately need financing but are unable to qualify for traditional bank credit.

It is important to understand why the SBA guaranteed loan programs are so important to the commercial banking industry. Like other businesses, banks must be able to meet their customers' needs if they are to survive. Equally important, however, is the fact that bankers must continue to be careful to evaluate the quality of loans they make rather than to simply push money out the door. Banks must continue to lend on the basis of what can be reasonably foreseen based on cash flow projections. While there continues to be an abundance of capital available to lend today, and while banks are prepared to make all the loans creditworthy small businesses need, banks cannot forego responsible lending policies. Put another way, while bankers are committed to the economic vitality of their communities, particularly small businesses, their banks must continue to operate within the parameters of safety and soundness laid out by the regulators. Consequently, one way for banks to participate effectively in sound small business projects that lack the resources and credit history to qualify for traditional bank loans is to work with government programs such as the SBA 7(a) program.

To better understand why a banker must utilize a government guarantee to make a variety of small business loans, one must first understand the banker's role in determining the creditworthiness of a potential small business borrower. A commercial banker's job is to assess the credit risk of a borrower by closely examining the borrower's business, management ability, and financial needs in an effort to determine reasonable cash flow projections necessary not only to service its debt but to show a realistic chance at turning a profit. The bank's methods of assessing this risk are closely examined by the regulators, not only to protect insured depositors but to ensure an overall safe and sound banking industry. Consequently, loans lacking proper collateral, adequate sources of repayment, and an established business history are often classified as substandard by the regulators unless they are accompanied by sufficient government guarantees.

In order to extend credit to these financially marginal and start-up small businesses while satisfying regulatory scrutiny, the banking industry turns to the SBA for a guarantee. Moreover, given periods of economic uncertainty in most regions of the country over the last several years, it is not surprising that the interest throughout the lending community in the SBA guarantee program has grown appreciably. In fact, as more lenders have experience with the SBA, their confidence in the workability of its guaranteed programs has increased. As a result, since there is confidence in the agency, since the program runs relatively smoothly and the administrative burden is reduced, participation has increased. We have certainly seen the impact of this increased participation in recent years, and all projections suggest that the trend will continue into the future. One can certainly see how this positive prognosis would bode well for the small business community in the foreseeable future. However, even with the many small business success stories which were made possible under the current section 7(a) structure, the program is far from a panacea.

For example, although last year's changes to SBA's preferred lenders program (PLP) were instituted for budgetary reasons to increase the level of 7(a) funding available, the practical impact of those changes is affecting the delivery of guarantees to small business. Specifically, program changes adopted last summer reduced the percentage of loans covered by a guarantee under PLP from 80 percent to 70 percent. While this program change was intended to reduce the SBA's portfolio average from 81 percent to 75 percent, the result is that fewer loans are being submitted under PLP. Many preferred lenders are finding themselves unable to accept the credit risk and the capital requirements necessary at the lower guarantee level, particularly for marginal small business owners -- those most in need of the SBA guarantee. As a result, these seasoned SBA lenders are forced to submit a number of their loan applications directly to the SBA to be processed for the higher guarantee. This process not only delays guaranteed loan approval, it forces unnecessary and costly administrative burdens on SBA field personnel. Consequently, the ABA recommends that consideration be given to increasing the guarantee percentage on loans made under the preferred lenders program to the previously-authorized 80 percent level. This increase would place the credit decision back with the bank, where it belongs.

Mr. Chairman, this brings me to the provisions of H.R. 4297 designed to augment the successful 7(a) program. Even with its success, the 7(a) program in its current form does not always provide enough flexibility to enable lenders to efficiently and effectively make small business loans to very small start-up operations seeking limited amounts of working capital. The ABA feels that the low-document program and the loan express programs outlined under the bill will help dramatically cut through the burdensome paperwork and enable lenders to make guaranteed loans more workable for those businesses looking for less that $100,000 in credit. Moreover, the ABA supports the notion of moving SBA's current direct Micro Loan Program to a guarantee. While the proposal is limited under the bill to ten urban and ten rural communities, the bankers would be pleased to work closely with the SBA to ensure a successful program which could then be implemented nationwide.

Further, I would like to comment on Title IV of H.R. 4297, which establishes within SBA a permanent Office of Women's Business Ownership. The banking community has long believed that an extremely important service governmental agencies like the SBA have to offer is that of advocacy and education. Creating offices within the SBA which focus on specialized sectors of the market have an important role to play in assisting potential small business borrowers in developing not only workable business plans but realistic marketing plans that will increase the likelihood of longterm success. The Office of Women's Business Ownership is an excellent example in that it works with potential women business owners to develop business plans that can be taken directly to potential lenders for credit consideration. This is the type of public/private partnership that works the most efficiently and most effectively. The ABA supports and commends SBA in its effort to broaden its outreach, not only for women, but for all sectors of the small business marketplace.

Mr. Chairman, let me summarize by stating that the ABA supports those provisions in H.R. 4297 that will better assist bankers looking for additional ways to make loans to struggling small business borrowers. In addition to the low-documentation program, the Loan Express program, and the Micro Loan program, a number of bankers have expressed a positive interest in changes requested for SBA's Export Revolving Line of Credit as a means of assisting the special needs of U.S. small businesses attempting to enter the global marketplace.

Together with the successful section 7(a) program, the SBA has crafted programs that show great potential, and is looking for ways to enhance those programs that are working today. The ABA supports this effort. In the end, the SBA loan guarantee programs' return on investment in terms of creating jobs and establishing long-standing productive businesses has been more than cost effective throughout the years. Ultimately, it is the government programs like the SBA that enable lenders to help the marginal borrower. The SBA has been a blessing for rural communities, for inner city entrepreneurs trying to redevelop neighborhoods, and for small businesses all over America.

Before I conclude my statement, allow me to comment on H.R. 4298 which will allow state and local development companies to prepay longterm debentures held by the Federal Financing Bank (FFB). The ABA supports this bill. The SBA 503 program, as well as today's 504 program, have been invaluable tools for lenders looking for ways to assist those community development initiatives, which, like some small businesses, lack the resources necessary to obtain traditional bank credit. The fact that these local development companies must pay an unreasonable prepayment penalty in order to refinance debt as high as 15.7 percent is contrary to the original purpose of these programs. The ABA believes that the penalties outlined under the bill reflect the market-type penalties commonly levied on private sector refinancings today. H.R. 4298 offers a reasonable alternative to the FFB current prohibitive prepayment structure and it should be supported.

In conclusion, the SBA guaranteed lending programs are important to banks because they permit the industry to assist this fragile, yet important segment of our society while still satisfying bank regulators that the safety and soundness of the financial institutions are protected. With the guarantee programs, credit is provided to small businesses that could not otherwise secure credit. For expanding businesses, bankers have used the SBA loan programs to help eligible small businesses purchase needed equipment, relocate operations, and fund working capital. In addition, the guarantees permit longer-term amortization of loan repayments, thus reducing cash flow pressure and contributing to business growth and job creation which would not happen without the guarantee programs because the regulators would not approve the long repayment period.

As always, this Committee's continued support for the SBA programs is certainly appreciated by the banking community. We look forward to continuing to work with this Committee and the SBA in a combined effort to assist our nation's small businesses.

I appreciate the opportunity to testify this morning and I will be pleased to answer any questions.

TESTIMONY

of

JOHN SHIVERS

CHAIRMAN/PRESIDENT/CHIEF EXECUTIVE OFFICER
SOUTHWEST BANK
FORT WORTH, TEXAS

on behalf of the

INDEPENDENT BANKERS ASSOCIATION OF AMERICA

on

SMALL BUSINESS ADMINISTRATION REAUTHORIZATION

before the

COMMITTEE ON SMALL BUSINESS

of the

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 11, 1994

Mr. Chairman, I am John Shivers, Chairman, President, and CEO of the Southwest Bank in Fort Worth, Texas. I am also President of the Independent Bankers Association of America (IBAA). The IBAA is the only national trade association that exclusively represents the interests of community banks.

We appreciate this opportunity to testify on the Administration's proposed SBA reauthorization. The IBAA represents many active SBA lenders, including my own bank. We have consistently supported the SBA's lending programs because they provide our banks with good opportunities to help small businesses which are the economic engines of our communities. IBAA strongly supports the Administration's proposal. We also appreciate the close contact that the new SBA Administrator, Erskine Bowles, maintains with the private sector and are pleased with his commitment to revitalize the agency.

Reauthorization Proposal

We strongly support increasing the overall guarantee amounts available for SBA guarantee programs. We hope that the Administration's recommendations are adequate to allow our banks that participate in SBA programs to serve the new applicants that will come to us as the economy continues to recover.

We also support the Administration's recommendation that the SBA's programs be reauthorized for three years, rather than just one as has been the practice in the past. This demonstrates a strong commitment to the program that we find reassuring. This is a welcome contrast to proposals to abolish the agency made in earlier years. The Administration's long-term commitment, if joined in by Congress, will encourage additional lenders to become more actively involved in SBA loan programs.

This commitment and the increased guarantee amounts are particularly important against the backdrop of last year's budget shortfall which led to a cutoff of SBA lending. We understand that the SBA's guarantee activity level is currently on track and the agency does not anticipate a similar problem this year. However, we are aware of estimates that the proposed funding for fiscal years 1995 and 1996 may be inadequate, considering the increases in SBA volume over the past two years. Congress should provide a contingency fund to avoid lending cutoffs.

SBA Staffing

We urge the Administration to recognize that the SBA will need adequate staff to implement the proposed guarantee increases. Staff will also be needed to carry out the many initiatives that the SBA has announced. This may run counter to the Administration's goal to reduce the total federal work force. However, inadequate SBA staffing could slow down loan approvals and lead to higher loan losses that would undermine the program.

As a community banker I must run a lean organization. But if we plan to increase our lending in a particular area we realize it must be adequately staffed. It is a false economy to run a lending operation with inadequate staff if the relatively small payroll savings are overwhelmed by large loan losses.

Low Documentation Pilot Program

When I testified before this committee in March regarding lending trends in the banking industry, I highlighted a new pilot program that permits us to submit far less documentation to the SBA when we make a loan under $100,000. This program allows us to make loans that would not have been made under the regular program because of its burdensome documentation requirements. It should do much to increase lending to women- and minority owned businesses -- which I know is a priority for the Administration. I am please to report that this program is working well in my bank.

Mr. Chairman, I understand that the SBA's new low-doc guarantee program implements a directive to decrease paperwork that you initiated several years ago. Under the new program, our bank submits far less paperwork to the SBA than before, so that approvals are often made in a few days, rather than in six to eight weeks. This permits us to service borrowers whose businesses simply can't wait for many weeks. Eventually, it could also decrease the SBA's staffing needs, helping to alleviate the potential problems in that area.

I want to emphasize that even though we submit less paper to the SBA, the bank must be sure that the loan is sound. We still require borrowers to submit the traditional documentation for the loan. The bank is responsible for reviewing the information and applying its underwriting judgment. Since the bank has such a large role in the process, it is also important that it be knowledgeable about SBA procedures.

We think that this program appropriately distinguishes between smaller loans which the SBA can safely approve with less documentation, and larger loans. Based on our experience, we believe that the loan level could be increased above $100,000, to perhaps $200,000. This would make credit more accessible to small businesses without significantly increasing risk.

Microloans

The Administration's bill, H.R. 4297, would increase the authority for the Microloan program, increase the number of eligible lenders, and increase the state-by-state flexibility. We support these changes and also believe that this program should be further opened up to bank participation. This would provide another way for banks to meet their Community

Reinvestment Act obligations and help introduce new businesses to the banking system at the start of their operations. Once these businesses have grown to the point where they can be conventional borrowers they will have already developed a good relationship with a bank.

Greenline Program

While we support the concept behind the Greenline Program -- intended to fund short-term working capital needs -- it is not workable as currently designed. To make meaningful use of the program, most banks would have to add two staff members to meet its monitoring and documentation requirements. The program is now designed like a factoring operation with rigid day-by-day controls over inventory. Factoring arrangements typically cost 7 to 8 percentage points more than a normal commercial bank line of credit to offset these costs. We recommend that the SBA consult more closely with the banks in redesigning the Greenline Program with an eye towards making it function along the lines of a regular commercial line of credit.

In addition, SBA loan officers may need additional training to deal with this type of program. They are now oriented to term/cash flow lending which is very different from extending a line of credit secured by assets. Bank lending officers could participate in this same training so they and SBA staff are working from the same information base.

Women-Owned Businesses

We support the aims of the Women's Pre-Qualification Pilot Loan Program, but are concerned that it would require an especially heavy level of SBA staffing. We think that the low documentation program could help SBA reach the goals of the pre-qualification program without imposing an additional burden on the agency.

We also recommend that in general SBA should consider a business woman-owned or minority owned if women or minorities own 50% or more of the business and are active in its day-to-day operation. To say that a woman who owns half of a business with another person is not "woman owned" discounts her role as an equal partner in the venture. Even though she owns only half of the assets, she is jointly and severally liable for the entire debt.

Significantly, under the 7(a) program, the SBA requires personal guarantees from every owner with at least 20% ownership. Thus, the SBA considers even a 20% stake significant in that context. In addition, SBA considers 50% ownership a "controlling interest. Finally, the Equal Credit Opportunity Act requires banks to report credit information to credit reporting agencies on a spouse in a joint credit transaction as if the obligation was the spouse's alone. These requirements suggest that it is appropriate to define a 50% woman-owned business as woman-owned.

In light of the increasing significance of women-owned businesses in our economy, it makes sense to upgrade the SBA's Office of Women's Business Ownership to statutory status. It would also help give focus to issues such as the definitional question we have raised in our testimony.

Proposed SBA Fee-Setting Authority

We are concerned about the provisions in H.R. 4297 which would permit the SBA to impose new or increased guaranty fees, management assistance, or user fees. Last year we opposed fee increases and reductions in the amount of each loan that the SBA would guarantee. While these changes stretched the SBA's budget over a larger number of loans, it also made it more difficult for lenders to reach out to somewhat more marginal borrowers.

This was the kind of significant policy choice that Congress, not the SBA, should make. Lenders could adjust to the increased risk by screening out borrowers that might have qualified in the past. Unfortunately, some deserving borrowers with a good idea lose out in the process. Though we opposed the result, increasing fees and changing the guarantee percentages at least required Congressional action.

Turning fee-setting power over to the agency could be very harmful in the hands of an Administration that, unlike the current one, was hostile to the SBA program. Therefore, we recommend that Congress carefully limit the power it gives to the SBA. It may well make sense to give it discretion to charge fees for publications and some services. But Congress should reserve to itself the critical decisions about the basic shape of the lending programs.

Bank and Non-Bank Participation in SBA Programs

As in many other areas, banks face stiff competition from non-banks in SBA lending programs. Recent legislation such as FIRREA (1989) and FDICIA (1991) imposed heavy new requirements on banks that do not apply to non-bank lenders. For example, FIRREA requires banks, but not other lenders, to obtain appraisals from certified or licensed appraisers. This directly increased costs to borrowers who often responded by seeking a loan from a non-bank lender.

The regulatory agencies are moving to reduce the burden of this regulation by increasing the de minimis exemption. They have certified that this increase raises no safety and soundness concerns. Despite this, we understand that some Members of

Congress are planning to offer legislation to reverse the agencies. IBAA strongly opposes this legislation, since it will be costly to borrowers and offer no additional protection to the financial system.

Those who borrow from banks must also pay indirectly the other costs of overregulation and excessive paperwork. A study by the Grant-Thornton accounting firm that IBAA sponsored found that community banks spend $1 billion per year complying with just 13 pre-FDICIA regulations. Though these costs are not as visible to the borrower as those imposed by the appraisal regulation, they must be absorbed, at least in part, by borrowers. Like the appraisal requirement, this does put banks at a competitive disadvantage.

Fortunately, Congress is taking some steps to reduce this regulatory burden. The conference on H.R. 3474 and S. 1275, the community development financial institutions legislation, will be considering both House and Senate provisions designed to reduce the burden. We have urged the conferees to act quickly so that the economy can begin to enjoy the advantages that will flow from these provisions.

SBA regulations also contribute to the inequity between bank and non-bank SBA lenders. Non-bank lenders may sell all of the non-guaranteed portion of SBA loans into the secondary market, while SBA regulations require banks to retain some of the non-guaranteed portion. This imposes a marked financial disadvantage on banks. We recommend that this inequity be eliminated.

<u>SBA and Rural America</u>

Many of our member banks are located in small towns -- three-quarters are located in rural communities of fewer than 10,000 people -- and are heavily involved in agricultural lending. According to Department of Agriculture guidelines, 45 percent are agricultural lenders.

In our testimony last year we made these same points, and said that the SBA programs can play an important role in creating jobs and revitalizing the rural economy. It is becoming increasingly clear that rural America's economic future will be based on non-farm activity.

Rural population, income, and employment have not kept pace with the rest of the country. There are sound social, economic, and environmental reasons why policy makers should attempt to redress this balance. Population would tend to remain in rural areas rather than moving to urban and suburban areas that are already feeling the stresses of rapid growth. Incentives like the SBA guaranteed loan program can help provide capital and create job opportunities for rural America. We urge the

Administration to tailor its SBA initiatives with this in mind.

Conclusion

IBAA appreciates the opportunity to testify on these important issues. We urge the committee to support the Administration's proposed increases in SBA funding and its three-year authorization plan. In doing so, it should also address the staffing and program design issues that this expansion and recent SBA initiatives has raised.

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

FISCAL YEARS 1995-97 BUDGET REQUEST (H.R. 4297)

&

503 DEBENTURE PREPAYMENT PROPOSAL (H.R. 4298)

Presented to the

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

by

MS. BARBARA VOHRYZEK

NADCO Vice President for Government Affairs
&
Executive Director,
California Statewide Certified Development Company

May 11, 1994

Good morning, Mr. Chairman and Members of the Committee. I am Barbara Vohryzek, Vice President for Government Affairs for the National Association of Development Companies (NADCO), and also executive director of the California Statewide Certified Development Company, of Davis, California. Mr. Chairman, it is well known that you are recognized as the father of this successful economic development program. I want to thank the Chairman and the Committee for your longstanding and generous support for the 503/504 programs over the past thirteen years. I also want to thank you for this opportunity to comment on the FY 1995 budget, as well as other issues pertinent to this important economic development program.

For those who might not be so familiar with the 504 program, its sole objective is to provide growth capital to deserving and creditworthy small businesses in order to create or retain jobs in both rural and urban communities. This innovative program combines the guaranty authority of the U. S. Small Business Administration with the capital formation abilities of both commercial banks and the nation's public finance markets.

Under the program, growing and profitable small businesses borrow long term funds for investment in new commercial construction, plant expansion or equipment acquisition. Every project financed with the SBA 504 program must create a minimum of one job for each $35,000 of 504 loan authority used, or meet other recognized SBA economic development goals.

Overall project financing sources are typically split between 50% bank lending, 40% SBA-guaranteed 10 or 20 year bonds sold to private investors, and a minimum of 10% new owner equity. The maximum amount of the guaranteed 504 bond for a single project is $1 million.

To deliver the 504 program to small businesses, the SBA has authorized the certification of approximately 300 Certified Development Companies covering every urban and most rural areas in the country. Except for about ten of these companies which are for profit, CDCs are "not-for-profit" community-based corporations, focusing on economic development and job creation programs.

FISCAL YEAR 1994 BUDGET

First, I'd like to address the current status and expected needs of the program for the remainder of FY 94. The authorization level for this year is $1.2 billion for 502 and 504 combined. The appropriated funds are $40 million for 502 and $1 billion for 504, for a total of $1.04 billion. The expanding economy has placed substantial pressure on the 502 and 504 programs. In order to meet the critical capital needs of small businesses across the country, CDCs have worked extremely hard to package, close and service a record number of loans this year. These efforts have resulted in a record number of jobs being created or retained in growing small and medium sized businesses.

Based on 504 approvals for FY 94 to date and historical lending patterns, we forecast a fiscal year-end requirement of between $1.4 and $1.5 billion in 504 loans. Without an increase in the program's authorization and appropriation amounts, CDCs and the SBA will face a serious funding shortfall by July of this fiscal year. NADCO urges the Committee to increase the authorization for FY 94 to $1.5 billion, as well as to support an increase in 504 program funding through reprogramming of available and appropriated SBA funds from other sources. These actions will enable CDCs to continue working towards the Administration's and Congress' goal of economic recovery through small business job creation.

Mr. Chairman and Members of the Committee, while the recovery is well underway, jobs are being created primarily by small to medium sized businesses. These are the segments of industry which continue to require new capital for plant and equipment financing to keep adding those new jobs. The 504 program is targeted directly at satisfying these credit needs.

FISCAL YEAR 1995 - 1997 504 BUDGETS

The 504 program has shown an accelerating growth rate since inception, but in the past three years has grown at an annual rate of over 30%, due primarily to the substantial reduction in commercial bank lending to creditworthy small businesses. During the recent economic crisis which caused massive job cutbacks by Fortune 500 companies, and huge financial losses from the resulting shrinkage of business, the 504 program continued to provide capital to small businesses which created tens of thousands of new jobs. At the same time, the loan losses suffered by SBA (and ultimately the U. S. taxpayer) from the 504 program loans continued at an extremely low rate.

Additionally, this program has continued to attract new private capital for the small business borrower. Three years ago, in addition to 504 loans, this program leveraged about $730 million in conventional, non-SBA guaranteed funding for 504 projects. This year, it will attract over $2 billion in conventional loans. This will occur during a time when commercial banks continue to be reluctant to provide small business loans.

At the same time the program is growing, the cost to the small business borrower continues to be below those interest rates offered by many commercial lenders. Over the past six and one-half years, private investors nationwide have become familiar and comfortable with the 504 debentures that we sell in the market. A large measure of this comfort comes from the quality of the program which has resulted in a very low rate of defaults and prepayments. The result has been a steady decline in the interest rate spread we pay over a comparable Treasury maturity from 150 basis points at the start of the program to 60 basis points today. As a result, our current low rates of less than 8% for our twenty year issues, have enabled us to provide capital hungry small businesses with inexpensive funds for expansion while they conserve precious cash for debt service, operating expenses and particularly for further business growth.

Mr. Chairman, for all of these reasons, we believe it is imperative that Congress continue to support this highly effective SBA job creation program. The Administration's requested program funding is:

FY 1995 - $2.3 billion
FY 1996 - $3.8 billion
FY 1997 - $5.7 billion

We strongly support the Administration's funding request. The program's performance over the past seven years has shown it to be one of the Federal government's most efficient and effective job creation tools available, with well over 350,000 jobs created or retained to date in local communities. This has been achieved at a subsidy cost to the U. S. taxpayer of barely $50 per job. We believe that the 504 program has a track record unparalleled by any other Federal program. We urge that this committee support the Administration through approval of this budget request.

ADMINISTRATOR'S AGENCY INITIATIVES

The Administrator has initiated a number of new or pilot programs for the Small Business Administration. We support his efforts to provide improved financial assistance to the nation's many small businesses while promoting cost effectiveness in the delivery of SBA's services. We would like to comment on some of his new initiatives.

Our industry is very concerned about the impact of increasing workloads on the loan approval and servicing staffs of district offices. The SBA is implementing a centralized servicing program now in its Fresno, CA, office in order to gain efficiencies through consolidation of similar functions. Feedback from our member CDCs in the affected SBA regions show that this program is increasing the service level to both borrowers and CDCs. We applaud and support this effort, and endorse the extension of such innovation to other SBA regions as the process is refined.

SBA has also recently created a "Re-inventing 504" effort to develop new and innovative procedures for directly improving the delivery of this loan program to small businesses. In support of this initiative, NADCO (the CDC national trade association) has solicited input from its members and formed a task force of experienced CDC personnel to assist SBA in defining and implementing new policies and procedures. The first report of that task force has been delivered to the SBA program office for its consideration.

SBA and NADCO have worked together for the last two years on a pilot program to speed up the application and approval process for 504 loans. This program, know as the Accredited Lender Program, is modeled after the very successful 7(a) CLP and PLP programs now used by many large commercial lenders. The goal of the pilot is to identify the most experienced CDCs, and to create procedures which enable SBA loan and servicing officials to rely on CDC expertise in processing loans rapidly, without changes in loan underwriting standards.

The ALP pilot has been shown to be effective in the small number of CDCs and SBA field offices where it has been implemented. NADCO has recommended to the SBA Re-inventing 504 committee that ALP be expanded to an increased number of experienced CDCs across the country. As part of this initiative, we have also recommended a number of substantial technical changes to the 504 program which will further streamline SBA loan processing, increase consistent program delivery to businesses nationwide, and result in real cost savings when fully implemented. The industry task force will continue to work in support of the Administrator's efforts to identify efficiencies and to eliminate redundant processing steps that create roadblocks and add unnecessary expenses for small business borrowers, and we will keep you informed of our progress in these areas.

As calculated by the Administration, a subsidy rate of approximately one-half percent has historically been assigned to this program for budgeting purposes. Our industry is committed to high quality loan underwriting. We are currently working with the Administration and with Colson Services Corporation to produce a study on our portfolio quality. This study is expected to be completed within several months and should provide additional independent information on the continuing quality of our portfolio.

503 PREPAYMENT PREMIUM

When NADCO testified last year, and in previous years, we requested that the Federal government address the issue of the onerous rates of interest paid by small business borrowers under the old 503 program. We recognize that the Chairman, in two previous sessions of Congress, attempted to rectify this injustice, only to have the proposals rejected.

Congress and the Administration again are seeking a solution to this continuing problem. We applaud the Committee's leadership and Congress's and the Administration's efforts. We strongly support your efforts to structure an equitable solution to this issue.

However, Mr. Chairman, we are strongly opposed to one facet of this legislation. That is the proposal to eliminate the statutory prohibition against Treasury and the Federal Financing Bank providing financing through the purchase of 504 debentures. We have several reasons for taking this position.

First, as the Administration's own Statement of Need and Purpose for H. R. 4298 indicated, there is only one major problem with the 503 program: the prepayment penalty. Mr. Chairman, that penalty is there because the Federal Financing Bank (FFB), a facility within the U. S. Treasury, demanded it of the SBA when the 503 program was created. This issue, more than any other, reveals the major difference between the FFB and other Federal government units that are charged with administering Congressionally-mandated programs.

The FFB is a funding mechanism for the Federal government; other agencies and departments, such as the SBA, serve the American people through the implementation of policies set by the Congress and the Administration. The FFB's goal is to minimize funding cost and maximize interest income, regardless of the impact on individual programs such as small business lending. The 503 prepayment issue that this Committee is now grappling with is the result of the FFB's focus on these funding goals, rather than economic development needs through service to communities and private businesses. NADCO does not believe that the FFB's policies have changed since the 503 program was created. We do not believe FFB can be supportive of SBA efforts to provide efficient, yet flexible financing for small businesses needs. However, we do believe that it is the history of the FFB and the nature of bureaucracy that, if this prohibition is removed, cause will soon be found to return the 504 program financing to the FFB.

Second, through your foresight, Mr. Chairman, the 504 program has developed into a cost effective financing vehicle which is a small business's "window to Wall Street". As you know, over the last year every major investment manager has begun focusing on small business credit securitization. This is currently one of the most intensely studied investment areas in the markets today. Yet asset securitization has been with us through the 504 program since December 1986. Today, both investors and underwriters vie for our pools of small business loans. In fact, the market is so strong that the cost of borrowing for the small business has dropped even more dramatically than market rates during the past few years.

Included with my testimony is a chart that compares the spreads of the 504 debentures and the GNMA security with a 10-year Treasury Bond. The present spread is currently equivalent to the standard 1/8 of 1% that the FFB charges, plus the market's 1/2% valuation of our call feature. We assume the FFB's valuation would be similar to the market's. As you can see, the spread that our program Fiscal Agent, Development Company Funding Corporation, negotiates with Wall Street is far below that of GNMA, an agency with financings hundreds of times the size of the 504 issues.

It is clear that the private investment community has responded to the 504 program funding needs as Congress intended. Our underwriters and our investors assure us that the reason the 504 debentures now sell at sixty basis points above the Treasury security is the design of our program, from the Trust arrangement to the fiscal agency, and more importantly, the quality and stability of the loans in our pools. Conversely, we are also assured that investors do not like uncertainty or disinvestment at inappropriate times. If our default rates increase, our spreads and the cost to the small business borrowers will soar. That is our market test, our discipline, and our incentive to maintain our strong underwriting standards and portfolio quality. It is therefore surprising and of concern to NADCO that the Administration would contemplate tearing down this cost-effective private sector financing program, in favor of a return to an old government-funded program which has since generated so many headaches for borrowers, the SBA, the Congress, and ultimately the American taxpayer.

Third, a return to financing by the Federal Financing Bank is tantamount to creating a direct lending program, since the Congress would need to fully appropriate the entire loan authority rather than only the guaranty cost (currently well under 1%). Ms. Cassandra Pulley, SBA Deputy Administrator, testified before this Committee on April 28, 1994. In her statement, she reviewed the reasons for the SBA recommending that Congress change the successful new microloan program from a direct loan to a guaranty program. Among the Administration's reasons are that SBA will "realize a significant cost savings from the reduction of our administrative role" and "demand for the program will outstrip any future direct loan appropriations that could be generated given the budget deficits. Moving to a guaranty program will allow the SBA to meet expanded needs without exacting a proportionally expanded administrative requirement on the budget."

Mr. Chairman, we ask why the Administration would seek to shift a $60 million direct loan program to a guaranty funding mechanism in order to gain efficiencies, while reverting a $2 billion program to a direct loan funding vehicle within the Federal Financing Bank. We can only imagine the extraordinary administrative and cost burdens which would be placed upon the SBA staff were it to assume responsibility for a 504 direct loan program. We believe this shift would make the 504 program less efficient at a time when SBA staff is barely able to keep up with demand. This could result in higher loan losses as underwriting standards slackened without the private sector "market test" of credit quality for the loan pools.

This Congress, the staff at SBA, NADCO, and our Wall Street underwriters have worked very hard to gain acceptance from the private sector for the 504 debenture. Our success is shown by the cost of borrowing for this program. The program provides very attractive long term rates for the borrower, is inexpensive to administer by SBA, and is flexible and responsive to changing market conditions. We urge this Committee to reject the Administration's proposal to put the Federal Financing Bank in the 504 funding business. We believe it will lead to an inflexible, bureaucratic, and costly program which will not serve the small business community well.

NADCO supports the efforts of the Congress and the Administration to identify an acceptable and fiscally viable alternative to the existing 503 prepayment penalty mandated by the Federal Financing Bank. As the Chairman stated in his opening comments during his Committee's hearing on April 28, we are in the midst of a major effort to reduce the deficit. NADCO is especially appreciative of the Administration's and the Congress' effort on behalf of the 503 borrowers under such circumstances. We recognize that it will be difficult to obtain funding for 503 borrower relief.

In addressing an appropriate structure for 503 prepayment relief, NADCO focused on two basic precepts: First, we are concerned that the proposed $30 million authorization provide relief to as many affected small business concerns as possible. Second, we believe every 503 borrower should bear some burden of penalty for the early payoff of their government-guaranteed loan, especially since many might not have obtained any credit without the assistance of the SBA. Although the prepayment penalties on these loans are often onerous and the size of the penalties was unanticipated, they were nonetheless business agreements under which most borrowers enjoyed below market rates for at least some portion of their loan period.

Therefore, we propose that, instead of using the set timetable and formula of the 504 program, the Congress consider a flat percentage penalty for each borrower who wishes to prepay. We recommend that every prepaying borrower be assessed a fixed prepayment penalty of a specified percentage of the remaining loan balance, with this penalty going towards extending the pool of funds available to pay for this prepayment program. We suggest a range of 5 to 10% for this fixed rate penalty. Our industry seriously considered 7% as our recommended rate, which our research shows is about the average balance in each borrower's loan reserve account.

Such a method of calculating the prepayment penalty can be easily computed by field offices. It is certainly less onerous than the penalty created by the Federal Financing Bank for the 503 program and would provide meaningful relief to the majority of borrowers.

We support the Administration's proposal to allow 503 borrowers to refinance their existing debt using the 504 program. As indicated in this testimony, we continue to see large commercial lenders reluctant to provide credit to small businesses. Over the last decade, many commercial buildings financed by the 503 program have failed to appreciate in value, many actually depreciating. Additionally, the loan balances on these long term 503 loans remain relatively high. As a result, without the ability to replace 503 loans with 504 financing, the most severely impacted companies will not be able to take advantage of 503 prepayment relief.

To offset some of the sacrifice we've proposed that the 503 borrowers make through this prepayment penalty, the CDC industry is prepared to assist borrowers who need to refinance through use of the 504 program. We propose that the industry reduce its 504 origination fee paid to CDCs from the normal one and one-half percent to one-half percent for loans which shift from 503 to new 504 loans. We believe this fee reduction will enable more borrowers to take advantage of the Administration's prepayment offer.

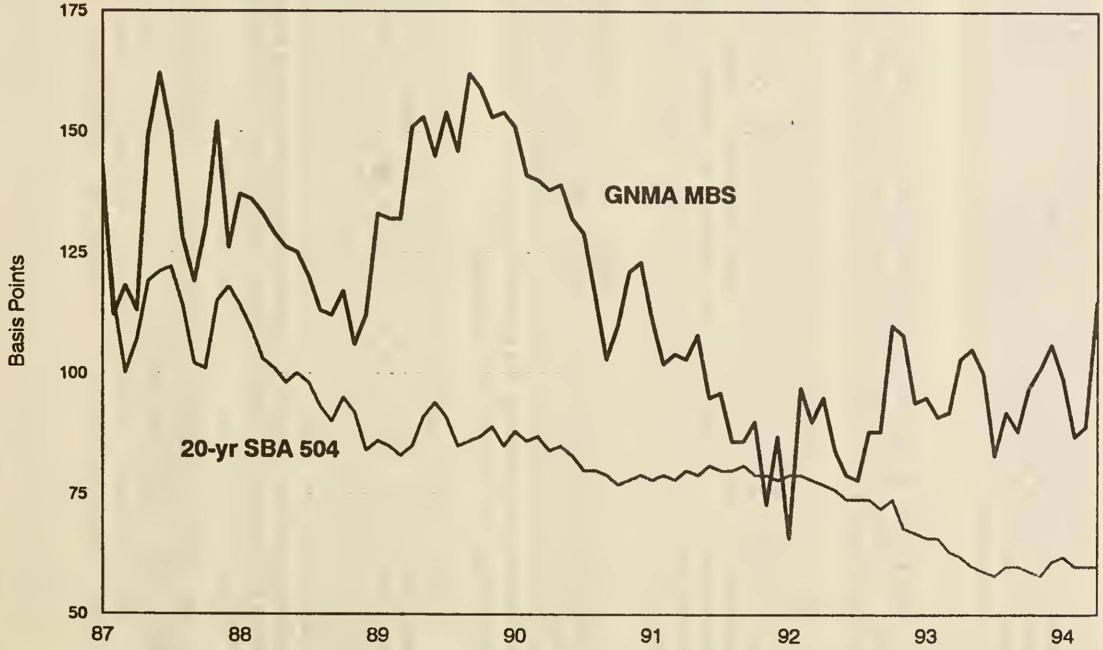
In closing, we deeply appreciate the strong leadership and continued commitment demonstrated by you and the Committee. We support the Administrator's renewed focus on the business "customer" by SBA staff, and hope that the agency will continue to aggressively expand its role in the nation's economic recovery. America's new jobs will come from small business during the next decade, and the Small Business Administration should be the agency to lead the Federal government's efforts to facilitate and support this job growth. Our membership stands ready to assist the Congress and the Administrator in our combined efforts to bring the 504 economic development program benefits to more small businesses across the country.

Mr. Chairman, this concludes my prepared remarks. I would be pleased to answer any questions you or the Members might have.

Development Company Funding Corporation

SBA 504 vs. GNMA*

Spread vs. 10-yr Treasury Note



**20-yr SBA 504 Security vs. 30-yr Ginnie Mae MBS*

NAGGL

The National Association of
Government Guaranteed
Lenders, Inc.

STATEMENT OF

ANTHONY R. WILKINSON

PRESIDENT & CHIEF EXECUTIVE OFFICER

NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 11, 1994

Mr. Chairman and distinguished members of this Committee, it is again a pleasure for me to appear before you to discuss the Small Business Administration's 7(a) guaranteed loan program. I am here today in my capacity as the President of the National Association of Government Guaranteed Lenders (NAGGL), the trade association representing the SBA 7(a) lending industry. Our 600 member institutions account for approximately 70% of all the SBA 7(a) loans that are approved annually.

Let me begin by saying that this is an exciting time to be involved with the SBA and its loan programs. Over the past several years, the SBA and the lending community have provided record amounts of capital to the small business community. The SBA has done an excellent job in bridging the capital gap for small businesses; but there is still much to do.

For the first time in several years, I am here today, not to complain about the shortcomings of a budget request, but to applaud the Administration for its recognition that small businesses are an important part of the overall effort to create and sustain a pattern of steady economic growth and job creation. Without the success of small business, this country will not have a sustained and widespread economic recovery.

Without capital, small businesses cannot start, grow and prosper, and create jobs. I thank SBA Administrator Bowles and the Administration for understanding that it is vitally important that the 7(a) and other SBA loan programs be fully funded so that the credit needs of small businesses in this country can be met. I hope that through the appropriation process, Congress will show its support for these vital small business loan programs and fully fund the President's budget request SBA business lending.

In my letter of invitation, I was specifically asked to comment on H.R. 4297, the Small Business Administration Amendments of 1994. Except for a few items that I will discuss in a moment, NAGGL supports the legislative package that has been proposed by the Administration. The proposed business loan program levels for fiscal years 1995-1997 should be sufficient to meet borrower demands.

First of all, NAGGL supports the SBA 7(a) loan program initiatives; the GreenLine program which provides a revolving line of credit; a low documentation loan program or "Low Doc"; The Women's pre-Qualification Pilot Loan Program; Small Loan Express; harmonizing of the Export Revolving Line of Credit with EximBank's Working Capital Guarantee Program, as well as the export finance programs of most states; and making the International Trade Loan program more flexible, and allowing smaller loans to be eligible under the program provisions.

And while we are covering SBA loan program initiatives, NAGGL also supports Senator Feinstein's effort to create the Small Business Defense Conversion Guaranteed Loan Program. We agree with the Senator's assessment that the best way to minimize the economic disruption caused by base closures and defense downsizing is to create jobs in those communities by supporting the expansion of small businesses. It is during difficult times that borrowers need capital the most, but often find that lenders are constrained from making needed loans, thereby further restricting access to capital for small business. Best of all, the loan program created in S. 1830 will require no new bureaucracy to administer as it would operate as a part of the SBA's 7(a) loan program.

Many sectors of the small business market remain starved for capital, and these initiatives address many specific areas of need. And the SBA is addressing these needs in an entrepreneurial fashion. For instance, the Low-Doc program reduces the paperwork required for a loan application of $100,000 or less. The credit review then focuses on the applicant's character and willingness to repay debts as evidenced by credit history. In exchange for a 90% guaranty and a simpler loan application process, the lender must be willing to accept the responsibility for and pay the costs of any liquidations. Through April, 975 loans had been approved for $52.9 million for an average loan of about $54,000.

While NAGGL is supportive of all these initiatives, we must realize that SBA cannot be expected to continue to deliver more services without some realignment of resources. Many SBA field offices are already overwhelmed by their current responsibilities. SBA field offices must have the resources and delivery systems to meet their current and expanding needs. Of the initiatives above, the Womens Pre-Qualification Program seems to head in the opposite direction of SBA's efforts to put more of the workload burden on the private sector. While we are supportive of the purpose, we question whether the SBA is in a staffing position to accept loan requests directly from the borrower.

To address the resource problem, SBA is proposing several organizational initiatives. First, SBA's reorganization plan will reduce the number of employees in the central and regional offices and allocate those positions to field offices. NAGGL supports the concept of moving staff to the field offices. This will allow SBA to improve the delivery of service to small businesses, and at the same time, put SBA in a better position to handle its expanding workload.

Second, NAGGL supports SBA's efforts to streamline its operations through the use of centralized business loan service centers and a centralized preferred lender loan processing center. These efforts should create economies of scale, while at the same time improving consistency and improving the service to small businesses.

Third, NAGGL recommends that the preferred lender guaranty percentage levels be reviewed. Since the legislative changes last August, PLP loans, as a percentage of loan approvals, have dropped dramatically. This means more loans are being physically processed by the SBA, placing a further drain on the existing limited SBA personnel. SBA's transaction costs increase because of the greater amount of handling required on each application. And, most importantly, the small business borrowers suffer as loans backlog at the SBA, reducing response times to loan applications.

One reason that lenders are shying away from the preferred loan program is the amount of capital a lender is required to put in each transaction. Bank lenders simply cannot make long term loans, the kind most needed by small businesses, when their funding source is short term deposits. In other words, you do not borrow short to lend long. It is that simple. Lenders will opt for the highest guaranty percentage possible, not only as a hedge against credit risk, but as a way to limit their term or maturity risk.

One concept that NAGGL is reviewing is the possibility of securitizing the unguaranteed portions of SBA loans. Perhaps there is a way to match an investment source seeking the longer maturities offered by SBA loans. Lenders would make and service loans just as they do today, but securitizing the unguaranteed portion would help reduce a lenders maturity risk. Since the review process has just begun, I am not here to offer a proposal. But the SBA 7(a) program is the natural place to begin the discussion of small business loan securitization. The SBA has many years of historical information on the performance of the loan program plus a nationwide delivery system and a standard loan application process already in place. If lenders had the ability to securitize the unguaranteed portion today, I believe preferred lender usage would not have dropped off as dramatically as it has.

The Money Store Investment Corp., an SBA non-bank lender, has already been successful in securitizing the unguaranteed portions of SBA loans in their portfolio. This provides evidence that the concept is workable, albeit, it will be more difficult when multiple loan originators will be involved. One issue that needs to be discussed is that The Money Store Investment Corp. was able to complete this transaction because, from an accounting perspective, they were able to follow, as they should, generally accepted accounting principles. Bank lenders would not be able to take part in this type of transaction because federal bank regulatory agencies ignore GAAP in favor of a much more conservative regulatory accounting treatment. While this is another issue for another day, I wanted to begin to lay the groundwork that for bank lenders to participate in any small business securitization transaction, legislation will be required instructing the banking agencies to account for the transactions using generally accepted accounting principles.

Our major concern in the legislative package are the proposed changes in sections 508 and 509 of the bill which would remove the prohibition of SBA "imposing any new or increased loan guaranty fees or debenture guaranty fees or any new or increased user fee..." NAGGL does not object to SBA charging a "reasonable and customary" fee for any of its services. For instance, it is reasonable and customary for lenders to charge a fee for a loan assumption, and we believe SBA should be allowed to do so as well. But for those of us who remember a prior Administration's attempt to dismantle the SBA from the inside out, we recommend that a limit be set on the maximum amount of any new or increased fees, and that loan guaranty fees not be subject to the change.

The SBA loan programs are well managed. These programs level out the playing field for smaller companies by providing them the same access to affordable, long-term credit enjoyed by larger corporations. This is done at a minimum of federal cost and at a minimum of interference in the free market system. NAGGL commends the Committee for its past support of the SBA and its loan programs, and we urge increased support now as the small business sector plays a most important role in these economic times. We must find ways to encourage the entrepreneurial spirit, encourage people to go into business and create jobs, develop technology, employ people and generate tax revenues. One way is to continue your support of the SBA and fight for full funding of its loan programs.

On behalf of all the members of NAGGL, I thank you for this opportunity to again come before this Committee. Mr. Chairman, NAGGL pledges its active cooperation in working with you and the Committee on small business financing issues.

COMMITTEE ON SMALL BUSINESS

JOHN J. LaFALCE, CHAIRMAN

HEARING ON SBA AUTHORIZATIONS

MAY 17, 1994

The Committee will come to order. Today the Committee resumes its current series of hearings on proposals to re-authorize programs administered by the Small Business Administration, and to modify some of their terms and conditions.

This morning we will be covering two topics: venture capital and surety bond guarantees. Thus we will have two separate panels.

The first panel will present testimony on the Small Business Investment Company, or SBIC, Program, and the Specialized Small Business Investment Company, or SSBIC, Program.

The SBIC program has entered a new era. Legislation I authored and which was signed into law two years ago, is now being implemented: the new participating securities funding provisions. Regulations finally have been issued and SBA has license applications pending from 48 new SBICs. Over the next three years SBA expects the new program to provide funding of over $3.3 billion, plus another $770 million in debenture guarantees.

On the SSBIC side, the agency is finally moving forward with another Congressional initiative: the buy-back of preferred stock. When originally issued, the preferred stock from SSBICs constituted an indefinite investment by the SBA. Stock issued in the past five years, however, has a mandatory 15-year buy-back provision, but older stock is still outstanding. We are attempting to phase it out by selling it back to the issuers, and I am looking forward to hearing of SBA's progress from the industry's perspective.

The second panel will deal with the surety bond guarantee program and the current pilot program establishing a preferred surety bond guarantees program.

SBA is convinced that the preferred program is such a success that it has proposed the elimination of the regular program and exclusive reliance on the preferred program which is less costly and has a lower administrative burden.

This is certainly an interesting proposal, but the Committee is concerned that elimination of the regular program may result in some contractors being unable to get bonding under the preferred program. Since many contracts require bonds, closing the SBA bond window to small businesses would essentially put them out of the running for such contracts. To such firms, the results would be devastating.

Before beginning with the venture capital panel, do other Members have opening remarks?

STATEMENT OF REPRESENTATIVE JAN MEYERS
SBA REAUTHORIZATION HEARING
VENTURE CAPITAL AND SURETY BOND PROGRAMS
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
MAY 17, 1994

Mr. Chairman, I will not make a lengthy opening statement, as I am sure we are all anxious to hear from our witnesses today. However, I would like to comment briefly on my concerns about our venture capital programs so that the witnesses can perhaps address these issues during their remarks.

As we know, from the SBA's own admission, and from a recent GAO report, there are significant problems with the SBIC and SSBIC programs, in terms of projected losses and eligibility criteria. I am not comfortable with the dramatic increases proposed by the SBA for these programs. Even though there are new regulations in place, and a new Associate Administrator, Robert Stilman, with vast investment experience, I do not feel we should push ahead with increased authorization levels until the program is cleaned up. Once the insolvent entities have been closed out, the losses accounted for, and any bad actors expunged from the SBIC/SSBIC programs, then we can talk about increases. Until that time, I feel it is this Committee's responsibility to protect the taxpayer money that has been invested in this program, not throw more good money after bad.

As representatives of the SBIC and SSBICs are with us today, I hope they will address my concerns, and tell the Committee what these associations are doing to "police" their own membership and ensure the quality of these programs.

Thank you, Mr. Chairman.

STATEMENT BY CONGRESSMAN JIM RAMSTAD
BEFORE THE HOUSE SMALL BUSINESS COMMITTEE
May 17, 1994

HEARING ON THE SMALL BUSINESS ADMINISTRATION AMENDMENTS

Mr. Chairman, I am pleased to welcome our panelists here this morning to discuss the Small Business Administration (SBA) Amendments and legislation to modify the prepayment penalty for SBA-guaranteed debentures issued by state and local development companies.

I certainly look forward to hearing our witnesses' testimony on the value of the SBA's Small Business Investment Company (SBIC) program. I am also interested in their thoughts about the existing prepayment penalty.

Mr. Chairman, I certainly look forward to reviewing these issues with today's witnesses.

TESTIMONY OF

JOHN A. HUSS

VICE PRESIDENT

UNITED STATES FIDELITY & GUARANTY COMPANY

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

MAY 17, 1994

UNITED STATES FIDELITY & GUARANTY COMPANY HAS BEEN INVOLVED WITH THE US SMALL BUSINESS ADMINISTRATION'S SURETY GUARANTEE PROGRAM SINCE ITS INCEPTION AS A PRIOR APPROVAL PROGRAM. WE HAVE BEEN A PARTICIPANT IN THE PREFERRED SURETY BOND GUARANTEE ROGRAM SINCE MARCH 1991 AND STRONGLY BELIEVE THAT OUR ACTIVITIES IN THE PSB PROGRAM HAVE BEEN MUTUALLY BENEFICIAL TO THE CONTRACTORS TO WHICH WE HAVE PROVIDED BONDING, THE SBA AND OUR COMPANY. FROM THE TIME WE WROTE OUR FIRST BOND IN THE PSB PROGRAM TWO YEARS AGO THROUGH APRIL OF THIS YEAR WE HAVE ISSUED A TOTAL OF 525 FINAL BONDS GUARANTEEING PROJECTS FOR 255 CONTRACTOR ACCOUNTS. OUR WRITTEN PREMIUM GENERATED FROM THESE BONDS HAS GROWN FROM ONLY $16,000 IN 1991, WHICH WAS GENERATED IN THE PREVIOUS PRIOR APPROVAL PROGRAM, TO OVER $400,000 IN 1992 AND IN EXCESS OF $700,000 IN 1993. WE ARE TARGETING THE $1,000,000 LEVEL FOR 1994.

A KEY MEASURE OF WHETHER OR NOT WE ARE BEING SUCCESSFUL IN THIS PROGRAM IS THE NUMBER OF CONTRACTORS THAT WE GRADUATED AND BEGAN BONDING WITHOUT A GUARANTEE. AS OF LAST FEBRUARY, WE ARE NOW BONDING WITHOUT A GUARANTEE 19 CONTRACTORS THAT WE INITIALLY BONDED WITH THE SBA SUPPORT. WHILE THIS MAY NOT SEEM LIKE A LARGE PERCENTAGE CONSIDERING THE NUMBER OF CONTRACTORS THAT WE CURRENTLY HANDLE IN THE PSB PROGRAM, IT MUST BE REMEMBERED THAT WE DIDN'T ACTUALLY START WRITING BONDS IN THIS PROGRAM UNTIL EARLY 1992 WHEN WE WERE ABLE TO MATCH UP OUR SYSTEMS WITH

THOSE OF THE SBA. CONSIDERING THAT THE CONTRACTORS WE ARE NOW BONDING WERE ACQUIRED AT VARIOUS TIMES OVER THE PAST TWO YEARS I THINK THE GRADUATION NUMBERS ARE SIGNIFICANT AND DEMONSTRATE THAT THE SYSTEM IS WORKING.

USF&G STRONGLY FEELS THAT THE EXISTENCE OF THE PREFERRED SURETY BOND PROGRAM HAS ENABLED US AND THE OTHER COMPANIES PARTICIPATING TO PROVIDE BONDING CREDIT TO SMALL AND EMERGING CONTRACTING BUSINESSES WHO HAVE THE KNOW-HOW, DESIRE AND POTENTIAL TO MAKE IT IN THE CONSTRUCTION FIELD AND GROW INTO VIABLE CONTRACTING BUSINESSES. THESE FIRMS WOULD NOT HAVE HAD THE OPPORTUNITY TO ACQUIRE BONDS IN THE STANDARD SURETY MARKETPLACE WITHOUT THE PRESENCE OF THIS PROGRAM.

ON THE OTHER HAND WE HAVE SOME CONCERN WITH THE CONCEPT OF ELIMINATING THE PRIOR APPROVAL PROGRAM. WE BELIEVE THAT THE SMALL CONTRACTOR MARKETPLACE CONTAINS FIRMS WITH SIGNIFICANTLY VARYING LEVELS OF EXPERTISE, EXPERIENCE AND POTENTIAL FOR GROWTH. NOT ALL OF THESE ARE QUALIFIED FOR BONDING UNDER THE UNDERWRITING APPROACH THAT WE USE IN CONNECTION WITH BUSINESS THAT WE PLACE IN THE PREFERRED SURETY BOND PROGRAM. OUR UNDERWRITING CRITERIA ARE GEARED TO THE SELECTION OF CONTRACTORS WHOSE INABILITY TO OBTAIN BONDING IS DUE TO THE UNDERCAPITALIZED POSITION NORMAL IN A START-UP OR EMERGING BUSINESS. THE OTHER UNDERWRITING CRITERIA APPLICABLE TO SMALL CONTRACTORS ARE

THEN EMPLOYED TO EVALUATE THE ABILITY OF THE CONTRACTOR TO COMPLETE THE PROJECT AND HIS LIKELIHOOD TO DEVELOP PROFITABILITY AND GROWTH.

WE BELIEVE THAT OTHER SURETY MARKETS, SOME OF WHOM PARTICIPATE IN THE SBA'S PRIOR APPROVAL PROGRAM, HAVE DEVELOPED THE EXPERTISE AND SERVICE NETWORKS TO PROVIDE BONDING TO THE SMALL CONTRACTOR MARKETS THAT MIGHT NOT MEET THE UNDERWRITING CRITERIA OF THE SO-CALLED STANDARD SURETY MARKETPLACE. ELIMINATING THE PRIOR APPROVAL PROGRAM WOULD, WE BELIEVE, SEVERELY DIMINISH THE AVAILABILITY OF BONDING TO THIS SEGMENT OF THE MARKET.

THE SMALL CONTRACTOR MARKETPLACE IS BEST SERVED IN ITS VARIETY OF CONTRACTOR TYPES AND ABILITIES BY CONTINUING WITH BOTH THE PRIOR APPROVAL AND PREFERRED SURETY BOND PROGRAMS.

STATEMENT OF

MICHAEL JANKOWSKI

ASSISTANT VICE PRESIDENT AND MANAGER OF

CLAIMS DEPARTMENT

AMWEST SURETY INSURANCE COMPANY

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

MAY 17, 1994

Thank you Mr. Chairman:

My name is Michael Jankowski and I am here to testify before this Committee on behalf of Amwest Surety Insurance Company. My position with the company is Assistant Vice President and Manager of our Claims Department.

First, I would like to thank each of you for the opportunity to testify before this Committee. It is both a privilege and an honor.

Amwest Surety Insurance Company is the nation's largest underwriter of specialty surety bonds and we have been one of the largest participants in the SBA Surety Bond Guaranty Program for the past 15 years.

Our company was founded in 1970 and for the past 24 years our primary business has been providing surety bonds for small, emerging and minority contractors. We have 31 branch offices located strategically across the country and we are licensed to do business in all 50 states, as well as in Guam, Puerto Rico and the District of Columbia.

Our commitment to meeting the bonding needs of small, emerging and minority contractors has been expanded over the past year to include our participation in two innovative public/private partnerships.

Recently, Amwest entered into a national agreement with the U.S. Department of Commerce to provide $30 million in surety bond credit to qualified minority contractors throughout the United States. Each of our branch offices will participate in the Program, providing local assistance to Minority Business Development Centers, Native American Business Development Centers and MEGA Centers located throughout the country.

In addition, we have committed up to $50 million in surety bond credit for the Regional Alliance for Small Contractors in New York and New Jersey. By our involvement in these programs, Amwest will help to provide hundreds of small emerging and minority contractors with greater opportunities to qualify for bonding for Federal and private construction projects.

While not all bonds written through these two programs will be SBA guaranteed bonds, it significantly increases our comfort level to know that the SBA program is available if we need it.

Although I wanted to provide you with a brief background on Amwest and our participation in the SBA program, that is not the primary purpose of my testimony before this Committee.

The question before the Committee is whether or not the SBA Prior Approval Program should continue to be funded. To answer this question, it is necessary to review the purpose behind the program. The primary purpose of this program was, and continues to be, providing small, emerging and minority contractors a vehicle with which they can obtain bonds required to bid on federal and private construction projects. The contractors bonded through this program do not have the required combination of experience and financial net worth to obtain bonds from standard market sureties. Furthermore, these contractors often are unable to pledge the collateral necessary to obtain bonds from specialty surety markets.

By writing these bonds, the government and the participating sureties are providing these contractors with an opportunity to expand their business, create jobs and add to the American economy. The goal of the SBA is to graduate these contractors to the standard surety markets after they have shown an ability to successfully complete their bonded work. Simply stated, the government, through the SBA Program is allowing many contractors to participate in the American dream!

As I indicated earlier, Amwest has been one of the largest participants in the SBA Program for many years. However, our participation has declined over the last few years. The primary reason for this decline is that some of our underwriters have been reluctant to deal with that they consider to be a very cumbersome paperwork process. It is our belief that the paper flow within the SBA structure, both at the underwriter stage and the claims reimbursement stage, could be improved if the SBA were provided with proper systems.

The SBA must be adequately equipped with systems to reduce and simplify its processing procedures. Furthermore, the SBA must also be supported in its field office operations. Any staff shortages in the field cause delay in processing bonds in a timely fashion which can be disastrous for a contractor. For example, if a contractor does not receive a bid bond in time to meet the bid date, he or she loses the opportunity to bid on the job.

With these suggested improvements, the SBA will be able to provide qualified sureties with much more incentive to enter the program, or expand their existing participation, which will result in the utilization of all available underwriting authority appropriated to the SBA each year.

In our opinion, the staffing cuts currently being considered would seriously impair the SBA's ability to achieve its primary goals of providing avenues for emerging and minority contractors to enter the marketplace and obtain more competitive bids on federally funded and private projects.

So, the real issue is not whether the Surety Bond Program should continue to be funded. We believe the answer "yes." The real issue is ensuring that the SBA has the proper staff and tools required in today's business world to allow it to transact business in an economic and efficient manner.

On behalf of Amwest, I strongly urge Congress to provide for the continuance of the SBA Program at the current levels, and to seriously review what additional staff and equipment is necessary in order to increase the SBA's productivity. Doing so will encourage a much greater participation in the program by Amwest and other quality sureties.

Thank you once again for this opportunity and privilege to testify before this Committee.

TIG INSURANCE

TESTIMONY SUBMITTED BY TIG PREMIER INSURANCE COMPANY

Presented by Marci Komlodi

for the House committee for Small Business

Tuesday, May 17, 1994

TIG INSURANCE COMPANY
70 WEST MICHIGAN AVENUE, BATTLE CREEK, MI 49017

Good morning ladies and gentlemen. Thank you for providing us the opportunity to testify before this committee regarding the Small Business Administration's Surety Bond Guarantee Program. As one of the largest surety companies participating in the prior approval program, we are concerned over your consideration of eliminating the funding for that program. We strongly urge you to fund the program at the appropriate levels for its success.

TIG Premier Insurance Company, formerly Transamerica Premier Insurance Company, has worked with the Prior Approval Program since 1984. In that 10 year time period, we have been solely responsible for writing $55,314,533 of gross premium on SBA guaranteed bonds. This represents contracts totaling more than $2.7 billion. Our contribution to the nation's economy through the use of the prior approval program has indeed been significant. In fact, in calendar years 1992 and 1993, TIG issued 6.067 final bonds through the SBA program at a gross written premium of $14,476,582 representing over $720 million in contracts.

It is important to understand that the Prior Approval Program appeals to a special surety market which is different than the standard surety markets which access the SBG program through the Plan B program. TIG is a specialty surety serving an entirely different market than those companies serving in Plan B. We focus on a market that consists of small, emerging, minority and start-up companies who are unable to secure bonding through regular commercial channels or who do not fit the niche carved out by the standard markets.

Companies such as TIG write bonds for contractors in situations traditionally not fulfilled by the standard surety companies. For example, we write bonds for contractors outside their immediate territory, for contractors with jobs larger than completed in the past but certainly within their capability, for tank removal and soil remediation contracts. Generally, it is the specialty surety company that offers bonds for unique or otherwise "special" contracts. This area would be left without access to the contracting market should the prior approval program not be funded.

TIG, like other specialty surety companies working with the prior approval program, operates differently from standard surety companies working through Plan B. Our distribution system is different. We work with a pool of general agents and their subagents located throughout the United States. Many of these individuals work in territories where SBA maintains a regional office. Additionally, underwriting authority is granted to the general agent who has intimate knowledge of the business and economic climate of the area. This decentralized approach enables underwriting agents to personally assist contractors in their development. Furthermore, it is this approach that enables us to provide bonds to qualified contractors who in other circumstances would be denied bonding. It is through the prior approval program that we are able to work so successfully in this way.

The proposal to move all SBG activities through Plan B would have a devastating negative effect on my company, our general agents and our contractors.

The current statutory guidelines prevent TIG from participating in the SBG program through Plan B. In order for us to write the same volume of bonds per year in Plan B as we currently write in the prior approval program, we would be required to restructure our entire operations which would be ultimately cost prohibitive for us. With only a 70% guarantee under Plan B, there are many bonds that TIG would not write, bonds that are currently written under the prior approval program. We have long been a strong supporter of the SBA SBG program and eliminating the prior approval program would effectively eradicate our ability to write bonds for the very group of contractors for whom the program was designed.

TIG's general agents would also suffer serious effects without the prior approval program. Without the underwriting authority they currently are allowed, agents could not effectively service their accounts resulting in a loss of clients. Further, the loss of the prior approval program could mean losing a book of business to another agent. If clients aren't available and/or are going elsewhere, it is only a matter of time before those agents lose business and eventually become unemployed themselves.

Most importantly, the loss of the prior approval program would result in our inability to bond contractors, ultimately harming this group of small, minority and emerging businesses. The prior approval program provides the "level playing field" in the surety market ensuring competitiveness and fairness. This results in the best possible prices for jobs for the taxpayer. Without the prior approval program, contractors currently bonded through the prior approval program would not have access to the market.

It is likely that the Plan B sureties are either unwilling or unable to write bond for a large number of the contractors served through the prior approval program. It is very clear that the social benefits of maintaining the prior approval program far outweigh any nominal cost of continuing the program.

TIG has reviewed SBA testimony regarding statistics of the prior approval program as compared to Plan B. As a surety company involved in the industry, we must note that the presentations previously provided are flawed. Plan B is a pilot program which has been in existence for only three years. It does not carry sufficient credible experience to be able to compute loss ratios effectively. Most surety losses occur after 18 to 24 months. The initial writings in Plan B were low, consequently, true losses may not be known for several more years, after further production.

Additionally, the loss ratios presented must be viewed relative to production. Plan B accounted for 10% of the SBA bonds written and 5% of the losses. The prior approval program accounted for 90% of the SBA bond written and 95% of the losses. Clearly, the ranges are to be expected given the respective levels of production.

TIG urges this committee to ensure that the funding necessary for the success of the prior approval program is available. We believe that the prior approval program and Plan B can successfully co-exist as was intended. The design of the pilot program, Plan B, was not to replace the prior approval program, but rather to complement it. The prior approval program is designed to address the problems experienced by small, emerging, minority and start-up businesses unable to secure bonds in the standard market.

As Plan B sureties do not actively pursue "specialty contractors", the prior approval program is the key to providing the majority of bonds to small, emerging, minority and start-up companies. Precisely those businesses which are the backbone of our economy. Further, the prior approval program embodies the true spirit of the surety bond guarantee program: it provides access to those who otherwise would not be able to compete in a very aggressive market. It is the ability of the contractors to meet bonding requirement and therefore be competitive through the prior approval program that assures the taxpayer the greatest value for his dollar.

Thank you for your consideration.

NATIONAL ASSOCIATION OF INVESTMENT COMPANIES

TESTIMONY

BY

JOANN H. PRICE, PRESIDENT
NATIONAL ASSOCIATION OF INVESTMENT COMPANIES

BEFORE THE

HOUSE SMALL BUSINESS COMMITTEE

MAY 17, 1994

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Introduction

Good morning, Mr. Chairman and members of the House Small Business Committee. I am JoAnn Price, president of the National Association of Investment Companies (NAIC). NAIC is the trade association representing the venture capital industry, including Specialized Small Business Investment Companies (SSBICs), specializing in investments in minority-owned small businesses.

I am pleased to have the opportunity to appear before you today to discuss H.R. 4297, the Small Business Administration Amendments of 1994, and H.R. 4298, to permit prepayment of debentures on certain SBA financings.

A copy of my formal remarks has been submitted for the record. Today, I will briefly highlight the success of the Specialized SBIC industry as a public policy program achieving one of the major goals of this Administration, and our frustration at their apparent lack of support for the industry given our success.

SSBIC Track Record

Let me begin by commending you and each committee member for the long-standing commitment and dedication to the Specialized SBIC industry. Your support enabled us to invest over $1 billion in approximately 12,000 during the years from 1982 to 1992. As the chart attached to my written statement demonstrates, these investments have helped to create or maintain over 156,000 jobs, chiefly in the minority community. They have also helped to generate over $47 billion in various tax revenues. Most importantly from the perspective of our program's goals, however, they have helped to create wealth and business expertise in the minority community.

The Specialized SBIC industry has been a success by any standard. From the perspective of minority businesses, we have helped to create a significant number of growing enterprises. From the perspective of the general minority community, we have created hundreds of thousands of jobs. From the government's perspective, we have generated significant tax revenues. And from our venture capitalists' perspective, we have developed a cadre of investment professionals who have proven their ability to identify investment opportunities in the minority business community and to structure investments to realize their significant potential.

Increasing Interest in Minority Business Finance

This final point is important because it means that the minority venture capital industry is finally attracting the interest of large institutional investors. This is an unprecedented development for us. To illustrate this, I would note that after close to 25 years, the Specialized SBIC industry currently has private capital of a little under $200 million. During the past two years alone, pension funds have invested more than this in minority venture capital firms **outside of the Specialized SBIC industry.**

This development poses two important questions. First, given the successful track record of the SSBIC program, why does the Administration want to eliminate the major incentive for the private sector to invest in the industry? And second, now that institutional investors are taking an interest in minority finance opportunities, why are they avoiding SSBICs?

Question 1: Why Does the Administration Want to Eliminate the Major Incentive for the Private Sector to Invest in the Industry?

The Administration is not providing sufficient support to SSBICs. Although H.R. 4297 provides authorizations for SSBIC preferred stock, the Administration's budget proposal provided no appropriations for that purpose.

Without question, it is the availability of preferred stock leverage, more than anything else, which attracts private sector investors to the Specialized SBIC program. By providing patient, equity-type capital, the government offers private investors the necessary leverage to make venture capital investments in the minority community. The importance of equity-type leverage to venture capital investors was recently recognized by Congress and the Administration when they passed the Small Business Equity Enhancement Act of 1992, which created equity leverage for the regular SBIC industry.

Yet at the same time the Administration is creating new equity vehicles for regular SBICs to facilitate the growth of that sector of the industry, it is proposing to eliminate this important funding vehicle for Specialized SBICs.

By eliminating preferred stock leverage for SSBICs, the Administration is eliminating the incentive for the private sector to invest in the industry. SBA preferred stock purchases from SSBICs represent 15 year investments in a partnership with private sector venture capitalists to target investments in the minority business community. This partnership is **essential** to the continued viability of the Specialized SBIC industry and the minority businesses in which we invest. **Absent preferred stock leverage, the private sector will not invest in this industry.**

The continued availability of preferred stock leverage is particularly critical given the recent passage of important legislation to spur capital to the SSBIC industry. This committee passed the Small Business Equity Enhancement Act of 1992 to drive more capital into our industry. And Congressmen Mfume, Rangel, Jefferson and others spearheaded the passage of tax legislation last year which provides capital gains incentives for investors in the Specialized SBIC industry. With this increased private sector interest in the program, it is vital to have the continued strong commitment of the public sector.

Question 2: Now that Institutional Investors are Taking an Interest in Minority Finance Opportunities, Why are They Avoiding SSBICs?

During the past two years, pension funds and other major sources of venture capital have begun to venture into minority finance opportunities. In fact, during this short time period, they have invested more private capital than is currently held by the 24 year old SSBIC industry. Yet, although a significant portion of these funds are being managed by SSBIC executives as the widely acknowledged experts in minority business finance, none of the investment vehicles receiving the funds are SSBICs. Why?

The SBA is an Unstable Partner

The most obvious answer is that the SBA is an unstable partner in the purported public/private sector partnership of the SSBIC program. Their support of this side of the industry, particularly in view of the significant emphasis they have placed on the regular SBIC industry, is highly questionable.

Five years ago this committee worked to pass legislation to allow SSBICs to repurchase their preferred stock from the SBA. This was an important opportunity for SSBICs to restructure their balance sheets in order to attract additional private capital. After five years and numerous delays, the SBA is finally preparing to launch this important recapitalization program. Conversely, the much more complicated recapitalization program for regular SBICs was accomplished in less than two years.

Numerous other examples can be given of instances in which the SBA has developed burdensome, unnecessary policies, i.e., setting new minimum capital standards which greatly exceed the capitalization of 91% of the SSBIC industry and of extremely subjective interpretation and application of SBA regulations.

Future Funding of the SSBIC Program is Questionable

Since the early 1980's, NAIC has worked with this Committee to overcome the budget proposals of many Administrations which have attempted to eliminate funding for the SSBIC program. When the new Administration came into office with their emphasis on minority business development, we anticipated a new, more supportive partner. Yet, we are once again before you fighting for our continued survival.

When SBA Administrator Erskine Bowles testified before this Committee earlier this year on the Administration's budget proposal, Congressman Mfume questioned him regarding the proposal to provide substantial equity leverage to regular SBICs while eliminating funding for SSBIC preferred stock leverage. Administrator Bowles replied that he was putting his limited resources where he believed they would do the most good. His message was clear, and one can hardly fault outside investors for questioning the future availability of preferred stock leverage.

<u>Current SSBIC Executives are Hesitant to Recommend Program</u>

Given the unstable regulatory environment and the uncertainty of future funding availability, it is not surprising that our current executives are hesitant in recommending the SSBIC program to outside parties. In the words of one of our executives, "Why would we want to give the SBA the ability to confiscate our capital?"

Clearly, this should not be the case. The SBA should take pride in its accomplishments of helping to develop a cadre of investment professionals who are the recognized experts in minority business finance, helping to create wealth in the minority community and jobs where they are most needed. Given a strong public/private sector partnership in the SSBIC program, we could leverage the funds coming into the community from institutional investors and achieve significant accomplishments which would dwarf the already-impressive achievements of the SSBIC industry. This is our goal.

And this is why we are flying in our executives and their portfolio entrepreneurs from around the country tomorrow to meet with many of you and other members of Congress who can help us to achieve this goal. In addition to our meetings, we will be in the House Government Operations Committee Hearing Room in 2157 Rayburn throughout the day so members and their staffs who are interested in speaking directly with our executives and their portfolio entrepreneurs will have that opportunity. I encourage each of you to take the time to learn more about our industry and its work.

<u>Debenture Prepayments</u>

Finally, with regard to H.R. 4298, I would like to express our support of legislation which allows prepayment of debentures which carry high interest rates. Although most consumer and other business loans provide this opportunity, many SBA program financings, including certain SSBIC debentures, do not. This legislation would help to relieve the small business community from this unnecessary burden.

H.R. 4298, as currently written, provides for debenture prepayments only in the 503 program. We would argue that the ability to prepay debentures is equally important in the Specialized SBIC program, where many companies must still make high interest payments on debentures they sold in the early-to-mid-1980's.

We ask the Committee's support for an amendment to the bill which would allow Specialized SBICs to prepay debentures which they sold directly to the SBA. It is our understanding that this would have very little budget impact.

Conclusion

In conclusion, the Specialized SBIC industry has proven it can successfully invest in specialized markets and make a return on investment. We have assisted in creating wealth and witnessed the positive impact many of these companies have had on individual communities. We have developed the venture capital talent, the national network, the deal flow, and the institutional and entrepreneurial relationships.

Our ability to continue to attract capital to the industry is critically dependent upon a stable and reliable public/private partnership. The responsibility for creating and maintaining a balanced environment must be shared by the government and private sector, both of whom have invested resources, talent and time.

Mr. Chairman and members of the Committee, your leadership and support for the Specialized SBIC program is greatly appreciated. Thank you once again for this opportunity to testify.

1982–1992 SSBIC Investment Statistics

SBA Leverage	SSBIC Investments	Est. Total Financing	
$356.6 million	$1.2 billion	$3.5 billion	
		$1.2 bil. SSBICs	$2.3 bil. other private $

Total Number of SSBIC Financings	11,711
Estimated Revenues of SSBIC Portfolio Companies	$11.7 billion
Estimated Total Employees	156,410
Estimated Portfolio Company Employees Payroll:	
Federal Taxes	$469,230,000
State and Local Taxes	$162,666,400
	$631,896,400
Estimated Portfolio Company Taxes Paid:	
Federal	$105,034,586
State/Local	$52,517,293
	$157,551,879
Estimated Payroll Taxes Collected:	
FICA: Employees	$234,615,000
Company	$234,615,000
Total	$469,230,000
Unemployment Taxes:	
Federal	$8,758,960
State	$37,538,400
Total	$46,297,360
Total Governmental Collections	$47.6 billion

The American Surety Association

TESTIMONY

before House Small Business Committee

presented by:
Tom Sauer, Past President

Tuesday, May 17, 1994

Good morning ladies and gentleman. Thank you for the opportunity to testify before you regarding the Small Business Administration's Surety Bond Guarantee Program. I am here representing The American Surety Association as well as my company, Western States Bond Agency, Inc. I am a past president of TASA and owner of my own agency.

The American Surety Association (TASA) is a professional trade association comprised of over 100 businesses participating in the specialty surety industry. The organization began in 1980 as a way to improve the information available both from and to companies participating in the SBA's Surety Bond Guarantee (SBG) Prior Approval Program. Our membership represents the most active participants in the SBG Prior Approval Program.

As you may recall, back in 1986 the SBA-SBG Program ran out of funding in Mid-August. TASA directed its contractors to contact their Representatives stating their concerns over the lack of funding and we were told the response was impressive. We congratulate this committee for its determination in maintaining adequate funding levels since that time. The proposal submitted by the administration for budget levels of two billion in gross guarantees per year should be adequate and we recommend this committee's approval of the same.

We are, however, concerned and distressed over your committee's consideration of eliminating the Surety Bond Guarantee Prior Approval Program while maintaining the Preferred Surety Bond Program (commonly referred to as Plan B). We expect such a move to be disastrous for the small business and minority contractor, the specialty surety market and the general public.

The SBG Prior Approval Program was established over 20 years ago to assist small and minority contractors. It has effectively met its mission by providing small and emerging businesses with the resources to qualify for surety bonds and compete for contracts. Many small and fledgling contractors are unable to obtain surety bonds without an SBA guarantee because their resources are too modest and their size represents too great a risk to the larger surety companies.

To get a surety bond, a contractor must pay a licensed surety company to issue a bond stating that the surety company assumes the risk of meeting the contract terms if the contractor defaults. Under the Prior Approval program, SBA guarantees a percentage of the surety company's risk. SBA agrees to assume a predetermined percentage of the loss in the event the contractor breaches the terms of the contract. Any contractor that meets SBA's size standard requirements as a small business can apply for an SBA surety bond guarantee.

Under Plan B, selected surety companies are authorized by SBA to issue, monitor and service bonds without SBA prior approval. In order to participate in Plan B, however, the surety company must meet certain regulatory requirements.

It should be noted that these same sureties active in this pilot Plan B Program were initially involved with the prior approval program (in the 70's and early 80's), however, due to their reluctance to participate fully with the SBA-SBG Program, specialty surety companies came in to fill the void and have since become leaders in servicing the market sector the SBG program intended.

The Prior Approval Program has proven to be successful over a 20 year period. To analyze the success of this program against the pilot Plan B program, in effect for only four years, is premature. It has been noted in previous testimony presented to the committee that the loss ratios for the Prior Approval Program are more than twice that for Plan B. There are basically two primary factors for this. Under the Prior Approval Program, the SBA's guarantee portion is between 10-20% higher than under Plan B, so clearly, SBA's obligation is higher thus inflating the loss ratio. As important as this, though, is the fact that the bulk of Plan B business has been written in the past 18 months and unquestionably too short of a time frame to develop any accurate information as it relates to a loss ratio. Because of the added SBA guarantee portion, under the Prior Approval Program, TASA members have historically undertaken writing accounts which are a greater risk than Plan B surety companies.

This is further validated through the GAO-RCED-94-134 Report. The March 1994 Report regarding participation in SBA's Bonding activities states: "SBA officials believe that the lower loss ratio for the Plan B Program reflects the sureties reluctance, with a 70% guarantee, to underwrite higher risk bonds. Surety officials also explained that they concentrate on firms with growth potential."

Additionally, Plan B has not yet proven it can or will meet the mission of assisting small and emerging businesses. With only a four year history, it is impossible to determine if this program can meet with the same success as the Prior Approval Program has enjoyed. In fact, during this time this pilot program has been active it has captured only 10% of the market.

The belief that the elimination of the Prior Approval Program would result in a cost savings to the SBA is erroneous. Historically, either the staff would be terminated, causing additional unemployment and greater cost subsidy by unemployment insurance, or the staff would be reassigned, which is the most probable result. With the reassignment of the personnel who have been trained to work in this market, you would be losing a cost effectiveness with a program of such a successful nature. It has long been known that the SBA staff have provided access for the small and emerging contractor both through hands-on work and through its repository of information on the bonding process. Since the Plan B program is not operated from the SBA field offices, it is likely that knowledgeable bonding resources would be greatly diminished within the SBA.

Cassandra Pulley's testimony is also taken out of context. In her testimony she refers to 18.8 million paid out for losses under the prior approval program during the period FY 1991-1993. She fails however to mention that the .6% contractor's processing fee and the 20% guarantee fee paid by sureties for bonds written through the prior approval program generated approximately $20 million in revenue during that period. We contend that the net effect to the taxpayer for the funding of this program is nominal.

The Prior Approval Program and Plan B appeal to different contractor markets in terms of their assistance. The elimination of the Prior Approval Program would result in foreclosure of contract access to the Prior Approval Program's market.

The Prior Approval Program participants are companies designed to assist the small and emerging contractor. Their target market is not limited to contractors showing significant growth potential. It is very often the case that the smaller contractor is satisfied remaining small as the company can build a strong company without growing larger in their environment.

Plan B, however, seeks to guarantee only those smaller companies with significant growth potential. The expectation from Plan B participants is that these contractors will eventually move into the standard surety market. Without the Prior Approval Program, a large number of contractors would then no longer have access to the surety market place resulting from Plan B's marketing strategy.

Even if Plan B participants were willing and able to shift their emphasis to include the Prior Approval Program's contractor market, Plan B participants would be unable to fulfill the complete 100% of the market seeking SBA guarantees .

It has been asserted that Plan B could fill the business currently being processed through the Prior Approval Program. This assertion is without substantiation when you consider that only 10% of the guarantees made by the SBA come through Plan B. It is unlikely that the Plan B participants could fulfill the 90% of the market currently being served by the Prior Approval Program. This is yet another way in which the contractor would lose his/her ability to contend effectively in a very competitive environment.

Elimination of the Prior Approval Program may also result in less minorities having access to the surety bond guarantees available through SBA. Currently, the SBG Prior Approval Program has 24% minority contractor participation versus only 16% working through Plan B. There is no proof that the 24% guaranteed through the Prior Approval Program would be able to obtain guarantees through Plan B. Therefore, minorities could be at a distinct disadvantage in contracting with Plan B only.

It is important to understand that the Prior Approval Program has successfully qualified small and emerging companies for SBA bond guarantees enabling them to work in a very competitive environment. Most of the surety companies participating in the Prior Approval Program do not qualify to participate in Plan B of the program.

Eliminating the Prior Approval Program would cause unnecessary unemployment not only among contractors, but also among the surety companies which have dedicated their business to working with the SBA and the Prior Approval Program.

The small specialty surety companies participating in the Prior Approval Program are subject to the same regulations as those that govern the large standard market companies. Surety companies must decide how much risk they are individually able to accept based on the allowable price. However, since the small contractor market is the market for the small specialty surety companies, they have filed their rates to cover a higher risk and to pay for the process of qualifying the small contractor for bonding.

The Plan B participants, or the larger companies, have not been willing or have not expended the necessary resources to become a participant in an SBG program which would encompass servicing the complete small contractor arena. This is verified by the fact that of the 13 companies who have signed the Plan B participation agreement, only seven have executed SBA guaranteed bonds. This is largely due to the fact that it is difficult for the large companies to participate due to the involvement required in the underwriting process of qualifying the small contractor for the bond. On the other hand, the small surety companies have dedicated their time and resources to specifically manage these contractors.

Further, it is precisely the companies involved in the Prior Approval Program that have structured their businesses to be in a position to work with the small, minority and emerging contractor. Their business has been built on working with the smaller and riskier contractor, the type of business Plan B participants have declined. To expect that Plan B would assume the role of the Prior Approval Program participants is fallacious. Therefore, it is likely that many small and emerging contractors would not have access to the surety bonds enabling them to win contracts, many smaller surety companies would be denied participation in the SBG program, reducing both segments of the industry's ability to employ individuals and contribute to the national economy.

Independent agents working with the Prior Approval Program also stand to suffer with the elimination of this important program. Many independent agents who currently represent contractors in the Prior Approval Program would be unable to represent their client in the Plan B program because they are not appointed agents with sureties participating in the Plan B program. The remarketing of contractors into the Plan B Program would allow the participating sureties unfair advantage to solicit insurance packages for contractors currently obtaining insurance with the independent agent. This would ultimately result in a loss of competitiveness within the surety industry.

Concentration on Plan B exclusively would result in less competitiveness in contracting ultimately harming the taxpayer. It is competitiveness in contracting that ensures fair prices for projects to the taxpayer. By excluding small, minority and emerging businesses from competing for contracts, the contractors working through Plan B would have an exclusive ability to gain work. It is precisely the small, minority and emerging business that is the backbone of our economy. It is this type of entrepreneurship that should be afforded the ability to play on a level playing field. In fact, this was the rationale for the establishment of the Small Business Administration so long ago. To eliminate the one successful program that these small and emerging companies have used to provide them access to a competitive market is socially irresponsible and counter to SBA's mission.

My personal experience with the SBA-SBG program substantiates the information I have provided. I have personally be involved with the program since 1977 and I have worked very hard to promote the benefits of using the SBA to many small, minority and emerging and distressed contractors during that time. In fact, I was given the opportunity to start a business dedicated to exclusively provide SBA guaranteed bonds. It is important to note that my company currently works with the SBA Prior Approval program and this work constitutes the bulk of my agency's premium volume and commission income. My territory is limited to the SBA Region VIII and this region has historically been a very significant user of this program.

My agency has underwritten numerous small town, rural contractors who have a single or sporadic bond needs. Since Plan B sureties are not geared to handle the one shot deals or those accounts with no growth potential, as they currently are not, eliminating the prior approval program will cause this class of contractor to either slip through the cracks of surety credit altogether or seek alternative surety markets that will be either credit or cost prohibitive. Ultimately those contractors will fail.

It is important to note that surety is not different than other businesses as it relates to business cycles. Presently, we are in a very soft market where access to surety credit is fairly easy for all contractors. Back in 1986-1990 when the surety market was tight, my agency wrote <u>many</u> contractors who were denied further surety credit by those sureties now participating in the Plan B program because of the distressed nature of their financial statements. Because of the prior approval program, however, we were able to successfully provide bond credit to contractors which eventually were able to survive and turn themselves around. Eliminating the prior approval program would eliminate the chance to give these companies an opportunity to weather poor economic conditions.

My company has also written numerous construction accounts which have either been start up companies or in the business for a very limited period of time. Most of the surety companies involved with the Plan B have requirements wherein the contractor must be in business for at least three years. Through the prior approval program, however, my agency has been able to develop the attitude that we want to give every contractor a chance to succeed and because of the prior approval program, they have access to decent and fair surety credit. Without this program, these contractors would not have access to viable surety credit.

My agency has written numerous contractors through the prior approval program who couldn't obtain surety credit from those sureties involved in Plan B because of their territorial restrictions or because of the nature of their work being so unique that Plan B sureties could not undertake the risk. The prior approval program provides these unique contractors with access, without which the market would be significantly less competitive.

Finally, my company deals with local insurance agents and brokers who don't have appointment with Plan B companies. Because of my capacity as a general agent, we are able to accommodate the needs of these agents so that they may maintain the construction company as an account. Without the Prior Approval Program, only insurance agents appointed with Plan B companies could participate in the SBG program.

Ultimately, my personal experience with the SBG program has been tremendous. The SBA officials involved have been cooperative and sensitive to the contractors' needs and the elimination of the prior approval program would have deleterious ramifications for contractors, the surety industry, insurance agents and most importantly, the general public.

CONCLUSION

In summary, the elimination of the SBG Prior Approval Program would have a devastating effect for the small, minority and emerging contractor, the specialty surety company, surety agents and ultimately, the general public. The majority of all SBA guarantees were provided through the Prior Approval Program. To presume that the Plan B participants could fulfill this role is without substantiation and very unlikely. Participants in the Prior Approval Program have been successfully providing access for small, minority and emerging businesses for over 20 years.

Additionally, Prior Approval Program participants, those sureties geared to specifically work with the riskier company, are statutorily prevented from working within the Plan B program. This prohibition would result in losses for not only the contractor served by this surety sector, but for the surety company and agents as well.

The companies working with these smaller contractors would be forced to redirect their efforts and/or go out of business. Likewise, the agents working with the Prior Approval Program could be eliminated from the market.

Without the Prior Approval Program, small, minority and emerging contractors will not have access to bond guarantees backed by the SBA necessary for operation. These small, minority and emerging contractors would be ultimately fail without access to the Prior Approval Program. Most significantly, it is these small contractors that ensure competitiveness in the marketplace thereby assuring the taxpayer the greatest bang for his buck.

The rationale for the establishment of the SBA was to assist the smaller businessmen and make the playing field level for small, minority and emerging companies. Eradicating the Prior Approval Program would result in a loss of competitiveness that ultimately would harm the taxpayer. The economic losses resulting from focus on Plan B exclusively are expected to be extensive.

Thank you for your time and attention in this matter. We are urging you to appropriate the necessary funding for supporting SBA's SBG Prior Approval Program.

NASBIC

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Statement

of

Howard F. Sommer

Chairman

National Association
of
Small Business Investment Companies

before the

Committee on Small Business

U.S. House of Representatives

May 17, 1994

Mr. Chairman and Members of the Committee:

I very much appreciate the opportunity to testify today on H.R. 4297 and H.R. 4298 - two bills you have introduced at the request of the Administration.

I am testifying today in my capacity as the volunteer Chairman of the National Association of Small Business Investment Companies (NASBIC), which is the national trade association for the SBIC industry.

In my real life, I am President of Fundex Capital Corporation, a privately-owned SBIC located on Long Island, in Great Neck, New York. Fundex Capital, which was licensed in 1978, has had a profitable track record over the past 16 years, has successfully financed some 230 small businesses, and currently has over $ 10.0 million under management.

I might add that as a result of the newly published SBIC regulations and related management improvements within SBA, we have expanded our commitment to the SBIC program and expect to double in size over the next two years.

My testimony on H.R. 4297 will focus exclusively on those portions of Title VI which propose new authorization levels for the SBIC program in fiscal years 1995, 1996 and 1997. I do not intend to discuss the various proposed technical amendments affecting SBA's role under the Small Business Act contained in that bill.

In addition, I will also comment on H.R. 4298 which, in its present form, would permit a modified form of prepayment for SBA-guaranteed debentures issued by State and local development companies.

Status of the New and Revised SBIC Program

Mr. Chairman, let me repeat once again the SBIC industry's appreciation and thanks for your personal leadership, and the leadership of this Committee, in securing passage of the landmark legislation which completely restructured and improved the SBIC program.

In our testimony to this Committee last year, we said that the new program will only be successful if it attracts top quality financial managers and a meaningful level of private capital investment. To achieve those objectives, we said that two essential ingredients had to be in place.

We felt, as a first prerequisite, that the new regulations implementing the program had to establish a new, positive regulatory environment for the program. That is, the new regulations had to be realistic, workable and market-related. I'd like to take a moment to bring you up to date on the progress that has been made in this area.

As you know, the SBIC legislation was signed into law in September, 1992. Following the change of Administrations, which understandably caused some delay in the process, proposed regulations were published for public comment in August of 1993. Extensive comments were submitted by the SBIC industry and other interested parties. After a very comprehensive and detailed analysis of the comments by SBA, a revised set of regulations was cleared by OMB and published as final rules on April 8, 1994, with an effective date of April 25, 1994. SBA also determined that the April 25th effective date of the new regulations would also be the first day that SBA would accept license applications from groups forming SBICs that intended to use the new Participating Securities.

We are absolutely delighted this milestone has been reached - and we can now move forward to implement the changes and rebuild the industry.

Certainly, there has been some frustration over how long it has taken to put the revised program in place. However, that concern has been vastly overshadowed by several positive developments in the process that are crucial to the long-term success of the program. For example:

- There has been a significant upgrade in SBA's capability to manage the SBIC program. SBA Administrator Erskine Bowles' personal involvement in reshaping the program, based on his knowledge of the investment business, is certainly a plus that doesn't require elaboration. And, Associate Administrator for Investment, Robert Stillman, with his vast experience in venture capital, is proving to be the perfect choice as the hands-on manager of the Investment Division.

- There is now a "user friendly" environment at SBA for the program. Instead of the old adversarial attitude, Administrator Bowles, Bob Stillman and their team are truly working to establish an effective partnership with the industry. In addition to fulfilling its public policy and regulatory responsibilities, SBA is now interested in providing services to SBICs which will help assure they are successful in their mission to finance small business.

Moreover, we now have a new set of comprehensive regulations that should generally prove attractive to the venture and investment communities. These new regulations will correct many of the systemic problems in the old program, significantly increase the flow of long-term capital to small business, and enhance SBIC profit opportunities.

The industry does believe that several additional regulatory changes still need to be made and there will continue to be a need for refinements of the new regulations. We intend to pursue those modifications in concert with the SBA.

Looking at the big picture, however, we are very pleased to tell you that several years of hard work, and a very intensive cooperative effort between SBA and the industry, have been productive. Fundamental changes in the regulatory structure have been made, and the statutory and regulatory foundation to rebuild the SBIC industry is now in place.

<u>**Authorized Program Levels for Fiscal Years 1995, 1996 and 1997**</u>

The second prerequisite we said was necessary to assure success of the the program was that investors must have confidence that the government is committed to providing adequate funding for the program. I can assure you that one of the most frequent questions asked by private investors is whether the government will really provide sufficient funding to meet demand as the program grows. These investors are considering long-term, 10-year commitments of their funds, and they want to know if the government will be a reliable financial partner.

Which brings me to H.R. 4297 and the SBIC authorization levels for fiscal years 1995, 1996 and 1997 proposed by SBA.

All the evidence we have from the financial marketplace makes it very clear that the level of interest in the newly restructured SBIC program is far beyond our initial expectations. This is true for both forms of SBICs - straight equity-type SBICs that will use the new Participating Securities, and debt-type SBICs that will use the old form of current-pay Debentures. One of the surprising side-effects of our efforts to make the financial markets aware of the new Participating Securities program was a "discovery" of, and intense interest in, the concept of SBICs that use Debentures.

SBIC licensing activity levels have picked up substantially. For SBICs using Debentures, SBA has licensed 9 new SBICs in the first four months of this year, and 22 additional license applications are being processed. In addition, 26 groups have filed license applications for SBICs that will use Participating Securities, and we are aware of over 50 other experienced, top quality investment groups that are actively considering or actually taking steps to form new SBICs.

Based on the recent rate of license applications and our assessment of interest from the financial markets, we estimate the program will generate the following cumulative level of activity over the period which includes fiscal years 1994-1997:

For SBICs using the new Participating Securities:

- Over 200 new SBICs will be licensed, with an average private capital of $15 million.

- These SBICs will bring in excess of $3.0 billion of new private capital into the program.

- They will deploy $1.8 billion of their private capital.

- They will use $3.5 billion of leverage through Participating Securities

- Their investments in small business will total $5.3 billion.

For SBICs using current-pay Debentures, we estimate that:

- 80 new lender-oriented SBICs will be licensed, with an average private capital of $7.5 million.

- These SBICs will bring $600 million of new private capital into the program.

- They will invest $330 million of their private capital.

- Leverage takedowns of these SBICs, combined with additional leverage used by existing SBICs, will total $1.2 billion.

- Combined investments in small firms by existing and new SBICs using Debentures will total $1.5 billion.

Participating Securities

In H.R. 4297, SBA has proposed the following new authorization levels for Participating Securities:

- $550 million in FY 1995,
- $1.1 billion in FY 1996, and
- $1.7 billion in FY 1997.

Our estimates closely parallel SBA's, and we fully support the proposed authorization levels for the new Participating Securities and strongly urge the Committee to adopt them.

Debentures

SBA's has proposed new authorization levels for Debentures of:

- $210 million for FY 1995,
- $250 million in FY 1996, and
- $310 million in FY 1997.

We have a fairly substantial disagreement with SBA here, with our projected need for Debenture leverage in the out-years significantly higher than SBA's. Our estimates for SBIC Debenture leverage are:

- $230 million in FY 1995,
- $350 million in FY 1996, and
- $500 million in FY 1997.

On an aggregate basis over the 3-year period our estimate for Debentures is $310 million higher than SBA's. Our projections are higher because of differences in two basic assumptions used in making the projections.

1. SBA assumed an average private capital of $15 million for new SBICs using Debentures. With a minimum capitalization requirement

for these SBICs of $5.0 million, we believe SBA's figure is too high. Instead, we have used an average private capital base of $7.5 million for these new SBICs.

2. Although our assumption of a lower average private capital would suggest less debenture use, SBA has also assumed a 2:1 leverage ratio in making its projections, based on the historical use of Debenture leverage under the old program, which we believe is unrealistically low. The historical 2:1 leverage ratio was superficially dampened by a significant number of equity-oriented SBICs that only used low levels of leverage because of the risk of incurring substantial debt service requirements they could not meet. As such, in our opinion, it is not a valid indicator on a going-forward basis. We are convinced that this equity-risk dampening effect has been removed from the new program, and that the newly licensed lender-type SBICs using Debentures on a going-forward basis will maximize leverage at a ratio of 3:1.

We would urge the Committee to adopt these higher authorization levels for SBIC Debentures.

The Committee's action on SBIC authorization levels for both types of leverage will send an important signal to the private investment community. Establishing authorized funding authority at these recommended levels is critical to give potential investors solid evidence that the government's commitment to the new SBIC program is real.

Expectations and Benefits

What can the government expect from its increased investment in the restructured SBIC program? We believe the benefits will be quite significant.

- We know that small growth firms are the primary engine of job creation in the U.S. economy. In normal business cycles, small business creates 65% of all the new jobs created in the economy.

- But, we also know that in today's market small businesses face a severe problem in obtaining the patient, long-term capital they need for growth and expansion.

- Between 1989 and 1992, sources of venture capital literally dried up, and while the level of dollars going into venture funds has rebounded, the bulk of that money is concentrated in a small number of very big venture funds that invest primarily in larger companies.

- The net result is a severe shortage of long-term patient capital that new start-up companies and small emerging businesses need for growth and survival.

- The revitalized SBIC program can, and will, be a major force in solving this problem by addressing a significant segment of the risk-capital needs of small business.

As our projections indicate, over the next four years, we believe the restructured SBIC program will produce 280 new SBICs, new private capital committed to the program of over $3.5 billion, deployment of $4.5 billion of leverage, and total new investments in small business in excess of over $6.5 billion.

Relief From Excessive Prepayment Penalties

Now let me quickly summarize our position on H.R. 4298, which provides relief from very high prepayment penalties for State and local development companies that have issued long-term Debentures guaranteed by SBA and held by the Federal Financing Bank (FFB) under SBA's 503 loan program.

I should first acknowledge that this is not a new issue for the Chairman. You have been waging a battle for several years to provide relief from excessive prepayment penalties for both development companies and SBICs, despite strong opposition from the Treasury Department in prior Administrations. We appreciate those previous efforts, and we thank you for the opportunity to recommend the inclusion of SBICs in this bill.

We would strongly urge the Committee to expand H.R. 4298 to include similar relief for SBICs that have outstanding Debentures held by the FFB. While the same excessive penalty exists in both programs, there is an important distinction in the case of SBICs.

In the 503 program, it's the borrower who's loan secures the debenture held by the FFB who bears the burden of the high prepayment penalty.

In the SBIC program, the SBIC's ox is gored directly by the prepayment penalty. There is no underlying loan which secures individual debentures of SBICs. In fact, under SBA's regulations borrowers from SBICs have absolute discretion to prepay a loan at any time. While SBICs are authorized to charge a reasonable prepayment penalty, it's far less than what they would have to pay to prepay their debenture held by FFB. As a result, SBICs that have issued these debentures have suffered a continually worsening negative spread on their loans as market interest rates have continued to drop. In fact, we are convinced that this has been a contributing factor to several SBICs going into liquidation over the past five years.

FFB's data shows that they currently hold some 76 SBIC debentures which are subject to this excessive prepayment penalty feature. Furthermore, FFB's analysis of this portfolio indicates that the cost of the premium to provide the type of relief prescribed by H.R. 4298 for these SBIC debentures would be slightly over $1.0 million.

In light of these facts, we strongly urge the Committee to amend H.R. 4298 to include SBICs facing this stiff prepayment penalty problem, with appropriate modifications to the bill to account for the structural distinctions between the SBIC and development company programs.

Let me address one additional concern with H.R. 4298. The last proviso in the bill, Section 2 (a) on page 5, would repeal the statutory prohibition against Treasury financing the 503 program through the Federal Financing Bank. The Administration's background statement on this provision suggests this would simply "give the Administration the flexibility to decide which is the best source of financing to use for the program."

Presumably, if the bill was modified to include SBICs the Administration would also want to repeal the statutory prohibition against Treasury financing the SBIC program through the Federal Financing Bank, and it would claim the same desire for simple "flexibility."

We strongly oppose this provision in the bill, or the inclusion of anything like it if SBICs are included in H.R. 4298. The prohibition in question became effective in 1986, and since that time both the SBIC and Development Company programs have put in place a very effective, market-based system to provide leverage financing for their programs. While this system involves a modest cost for leverage, it has also eliminated the very problem of excessive prepayment penalties inherent in FFB financing which H.R. 4298 is designed to relieve.

Treasury vehemently opposed moving the financing system for these programs out of the FFB in 1986, and we have no doubt about what action Treasury would take if this provision were enacted - they would immediately force both programs back into the FFB system.

In our view, this proposal is counterproductive and antithetical to our interests as the users of these financing programs. We strongly urge the Committee to kill this provision of the bill.

Conclusion

Thank you for the opportunity to testify today. Obviously, these subjects are of vital importance to the future of the SBIC industry and its continued ability to provide patient, long-term capital to small growing companies. We look forward to this Committee's continued oversight and support in meeting this goal.

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

May 9, 1994

The Honorable John J. LaFalce
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you again for according me the opportunity to appear before you on March 17 to discuss the results of the President's Credit Availability Program.

During the hearing, you requested state-by-state data on commercial and industrial (C&I) lending for 1993, which is the most recent data available. In response, I have enclosed a summary table, more detailed state-by-state analyses, and regional analyses, as compiled by the Federal Deposit Insurance Corporation. As the data indicate, C&I lending appears to be trending upward, after three years of decline. Commercial and industrial lending even picked up overall in New England during 1993, although Connecticut and New Hampshire posted declining rates. Note that the data are for total C&I lending, and are not broken out between large and small businesses. Therefore, we cannot be certain that small business lending reflects the overall trend.

If we can be of any further assistance, please let me know.

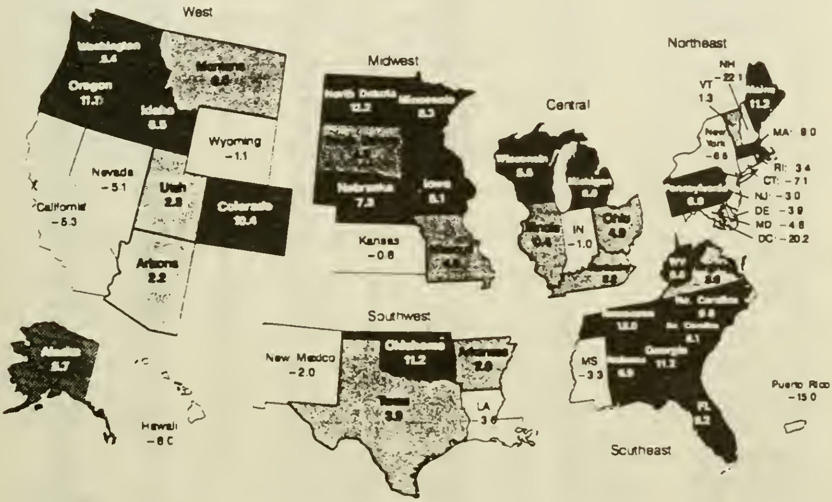
Sincerely,

Frank N. Newman

Frank N. Newman
Under Secretary of the Treasury

Enclosure

Commercial and Industrial Loan Growth Rates
December 31, 1992 – December 31, 1993



Less than 0%
Between 0 and 5%
Greater than 5%

Commercial and Industrial Loan Growth Rates

December 31, 1993
(dollar figures in millions)

		Commercial and Industrial Loans						Total Assets
		Growth Rate 12/31/92 -12/31/93	as a % of Assets	Rank	Percent Noncurrent*	Rank	Total	
1	North Dakota	12.23	10.41	34	1.65	28	$848	$8,124
2	Tennessee	11.95	12.84	22	0.80	50	7,319	57,018
3	Oregon	11.72	18.19	5	0.68	51	4,981	27,390
4	Maine	11.21	15.64	14	1.63	29	1,360	8,699
5	Georgia	11.19	16.47	10	1.06	46	14,835	90,074
6	Oklahoma	11.17	11.19	30	2.46	12	3,473	31,039
7	Colorado	10.35	8.43	45	1.36	39	2,901	34,427
8	North Carolina	9.63	16.15	11	0.89	48	16,794	103,972
9	Florida	9.18	8.48	44	1.85	25	12,738	150,192
10	Massachusetts	9.04	21.69	2	1.57	32	21,191	97,718
11	Minnesota	8.30	14.62	18	1.32	40	9,105	62,292
12	Michigan	8.02	19.03	4	1.03	47	20,162	105,957
13	Nebraska	7.33	9.51	39	1.79	26	2,294	24,116
14	Pennsylvania	6.91	17.59	6	1.55	33	33,485	190,393
15	Alabama	6.89	14.46	17	0.88	49	6,782	46,896
16	West Virginia	6.77	8.20	47	2.55	10	1,630	19,881
17	Idaho	6.47	14.41	16	0.57	52	1,576	10,941
18	South Carolina	6.07	10.41	35	1.52	34	2,881	27,690
19	Iowa	6.06	9.11	41	1.90	24	3,528	38,718
20	Alaska	5.72	15.44	15	1.57	31	789	4,979
21	Wisconsin	5.45	15.67	13	1.30	41	8,502	54,244
22	Washington	5.36	19.28	3	1.12	44	7,989	41,435
23	Ohio	4.89	14.30	19	1.44	36	19,008	132,919
24	Missouri	4.25	12.38	23	2.31	16	8,484	68,549
25	South Dakota	4.24	11.28	29	2.10	20	2,163	19,185
26	Texas	3.65	14.06	20	1.07	45	25,866	183,958
27	Virginia	3.59	11.32	28	2.33	14	8,418	74,380
28	Rhode Island	3.40	24.82	1	1.23	43	3,359	13,527
29	Montana	2.98	11.73	26	2.16	18	930	7,931
30	Utah	2.26	10.39	36	1.28	42	1,600	15,399
31	Kentucky	2.20	11.56	27	1.44	35	5,264	45,539
32	Arizona	2.16	7.29	49	2.00	22	2,705	37,104
33	Arkansas	1.98	8.33	46	1.38	38	2,167	26,019
34	Vermont	1.32	10.71	32	3.98	2	625	5,831
35	Illinois	0.41	16.65	8	1.75	27	35,294	211,968
36	Kansas	(0.56)	10.13	37	2.29	17	3,071	30,333
37	Indiana	(0.95)	12.09	24	1.97	23	7,437	61,500
38	Wyoming	(1.05)	9.73	38	2.45	13	501	5,154
39	New Mexico	(2.00)	8.17	48	2.32	15	1,045	12,788
40	New Jersey	(2.98)	12.07	25	3.68	3	12,100	100,286
41	Mississippi	(3.30)	9.37	40	2.11	19	2,288	24,419
42	Louisiana	(3.58)	8.72	42	2.48	11	3,493	40,062
43	Delaware	(3.92)	5.78	51	1.62	30	4,966	85,848
44	Maryland	(4.78)	10.56	33	2.93	5	5,488	51,992
45	Nevada	(5.06)	4.33	52	2.94	4	779	17,999
46	California	(5.34)	16.57	9	2.85	7	54,422	328,533
47	Hawaii	(5.99)	15.80	12	2.07	21	3,517	22,281
48	New York	(6.47)	16.91	7	2.84	8	130,264	770,463
49	Connecticut	(7.11)	13.55	21	2.79	9	4,463	32,929
50	Puerto Rico	(14.97)	10.91	31	2.88	6	2,344	21,486
51	District of Columbia	(20.24)	8.54	43	4.78	1	1,135	13,293
52	New Hampshire	(22.10)	5.97	50	1.39	37	440	7,366
	U.S. and Territories	0.52	14.54		2.04		$538,952	$3,705,947

*Commercial and industrial loans past due 90 days or more or in nonaccrual status

Northeast Region

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	878	886	922	-4 8
Total employees (full-time equivalent)	451,632	446 410	449 370	0 5
CONDITION DATA				
Total assets	$1,399,830	$1,372,589	$1,307 657	7 1
Loans secured by real estate	270,846	263,199	263 202	2 9
Commercial & industrial loans	221,218	219,965	228,068	-3 0
Loans to individuals	149,712	143,128	140,147	6 8
Farm loans	1,204	1,178	1,191	1 2
Other loans & leases	135,851	134,262	118 178	15 0
Less Unearned income	2,911	3,159	3 956	-26 4
Total loans & leases	775,920	758,573	746 829	3 9
Less Reserve for losses	23,192	24,146	25 193	-7 9
Net loans & leases	752,729	734,426	721,636	4 3
Investment securities	270,808	264,041	248,947	8 8
Other real estate owned	8,519	9,861	12,129	-29 8
Goodwill and other intangibles	5,137	4,344	4,061	26 5
All other assets	362,638	359,916	320,884	13 0
Total liabilities and capital	1,399,830	1,372,589	1,307,657	7 1
Noninterest-bearing deposits	188,711	177,313	178,099	6 0
Interest-bearing deposits	752,016	744,918	745,912	0 8
Other borrowed funds	253,711	248,166	209,964	20 8
Subordinated debt	21,208	21,109	19,965	6 2
All other liabilities	79,326	81,681	63,114	25 7
Equity capital	104,859	99,403	90,603	15 7
Loans and leases 30-89 days past due	11,603	11,251	14,364	-19 2
Noncurrent loans and leases	21,193	25,585	33,445	-36 6
Restructured loans and leases	5,712	6,727	7,095	-19 5
Direct and indirect investments in real estate	250	22	38	561 0
1-4 Family residential mortgages	151,038	141,300	135,242	11 2
Mortgage-backed securities	123,857	124,033	115,590	7 2
Earning assets	1,227,597	1,191,518	1,144,189	7 3
Long-term assets (5+ years)	192,351	188,999	187,067	2 8
Volatile liabilities	576,547	567,271	515,904	11 8
Foreign office deposits	259,180	255,034	232,026	11 7
Unused loan commitments	662,793	629,315	589,389	12 5
Off-balance-sheet derivatives	9,724,240	9,838,691	6,995,375	39 0

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$97,855	$100,838	-3 0	$25,643	$24,878	3 1
Total interest expense	50,866	55,529	-8 4	13,507	12,986	4 0
Net interest income	46,989	45,309	3.7	12,136	11,892	2.1
Provision for loan losses	8,458	12,936	-34 6	1,859	3,202	-41 9
Total noninterest income	34,754	30,353	14.5	9,433	7,576	24 5
Total noninterest expense	54,261	50,032	8.5	14,014	13,073	7 2
Securities gains (losses)	1,895	2,242	-15.5	184	481	-61.8
Applicable income taxes	6,566	4,648	41.3	1,728	1,106	56 2
Extraordinary gains, net	1,120	258	334.3	57	31	83 0
Net income	15,453	10,545	46.5	4,209	2,601	61 8
Net charge-offs	9,649	13,326	-27.6	2,725	3,493	-22.0
Cash dividends	6,489	4,314	50.4	2,069	1,494	38.5
Net operating income	12,982	8,630	50.4	3,992	2,205	81 0

N/A - Not available

Southeast Region

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	1,818	1,855	1,892	-3.9
Total employees (full-time equivalent)	258,063	252,208	252,693	2.1
CONDITION DATA				
Total assets	$594,521	$575,421	$550,025	8.1
Loans secured by real estate	190,113	184,399	168,516	12.8
Commercial & industrial loans	73,685	71,271	67,945	8.5
Loans to individuals	70,372	68,528	62,932	11.8
Farm loans	2,501	2,732	2,237	11.8
Other loans & leases	22,867	19,961	22,071	3.6
Less: Unearned income	1,399	1,442	1,894	-26.2
Total loans & leases	358,139	345,449	321,807	11.3
Less: Reserve for losses	6,797	6,808	6,420	5.9
Net loans & leases	351,342	338,641	315,387	11.4
Investment securities	146,464	143,576	134,577	8.8
Other real estate owned	2,021	2,417	3,229	-37.4
Goodwill and other intangibles	2,251	2,023	1,853	21.5
All other assets	92,443	88,765	94,979	-2.7
Total liabilities and capital	594,521	575,421	550,025	8.1
Noninterest-bearing deposits	86,644	80,831	81,448	6.4
Interest-bearing deposits	369,501	361,542	352,803	4.7
Other borrowed funds	78,637	74,900	63,562	23.7
Subordinated debt	2,156	2,010	1,899	13.6
All other liabilities	9,865	9,601	8,497	16.1
Equity capital	47,717	46,537	41,816	14.1
Loans and leases 30-89 days past due	4,052	3,958	4,361	-7.1
Noncurrent loans and leases	4,388	5,214	5,671	-22.6
Restructured loans and leases	341	344	349	-2.4
Direct and indirect investments in real estate	37	43	46	-19.7
1-4 Family residential mortgages	108,601	104,123	92,223	17.9
Mortgage-backed securities	46,521	48,484	44,283	5.[illegible]
Earning assets	534,585	517,387	489,862	9.[illegible]
Long-term assets (5+ years)	85,748	85,520	84,466	1.5
Volatile liabilities	127,163	121,445	108,267	17.5
Foreign office deposits	11,542	9,313	6,307	83.0
Unused loan commitments	166,797	154,610	126,557	31.8
Off-balance-sheet derivatives	331,163	278,598	118,439	179.0

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$37,412	$38,497	-2.8	$9,456	$9,364	1.0
Total interest expense	14,595	16,935	-13.8	3,642	3,717	-2.0
Net interest income	22,817	21,562	5.8	5,814	5,647	3.0
Provision for loan losses	1,680	2,788	-39.7	379	716	-47.0
Total noninterest income	8,731	7,878	10.8	2,340	1,971	18.7
Total noninterest expense	20,341	19,612	3.7	5,431	5,324	2.0
Securities gains (losses)	275	468	-41.3	28	101	-72.3
Applicable income taxes	3,123	2,280	37.0	762	533	42.9
Extraordinary gains, net	102	21	390.2	10	6	66.4
Net income	6,779	5,249	29.2	1,621	1,152	40.7
Net charge-offs	1,446	2,624	-44.9	424	854	-50.3
Cash dividends	3,373	2,122	58.9	1,341	907	47.8
Net operating income	6,485	4,892	32.6	1,591	1,074	48.1

N/A - Not available

Central Region

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)

	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	2,411	2,431	2,521	-4.4
Total employees (full-time equivalent)	252,322	250,314	249,983	0.9
CONDITION DATA				
Total assets	$612,127	$599,128	$581,544	5.3
Loans secured by real estate	160,369	157,049	150,180	6.8
Commercial & industrial loans	95,668	93,348	92,659	3.3
Loans to individuals	76,376	73,545	68,656	11.2
Farm loans	5,611	5,920	5,558	1.0
Other loans & leases	29,162	29,229	28,856	1.1
Less: Unearned income	836	880	1,084	-22.8
Total loans & leases	366,350	358,212	344,826	6.2
Less: Reserve for losses	6,859	6,902	6,519	5.2
Net loans & leases	359,491	351,310	338,307	6.3
Investment securities	143,996	142,355	136,589	5.4
Other real estate owned	1,277	1,476	2,031	-37.1
Goodwill and other intangibles	1,932	1,806	1,949	-0.9
All other assets	105,433	102,182	102,668	2.7
Total liabilities and capital	612,127	599,128	581,544	5.3
Noninterest-bearing deposits	92,663	86,276	87,852	5.5
Interest-bearing deposits	375,675	370,996	371,731	1.1
Other borrowed funds	77,773	76,594	61,689	26.1
Subordinated debt	5,070	4,948	3,612	40.4
All other liabilities	11,250	11,222	10,973	2.5
Equity capital	49,697	49,092	45,687	8.8
Loans and leases 30-89 days past due	4,583	4,710	4,990	-8.2
Noncurrent loans and leases	4,369	5,137	5,799	-24.7
Restructured loans and leases	417	485	584	-28.6
Direct and indirect investments in real estate	8	8	6	17.6
1-4 Family residential mortgages	89,490	87,101	82,402	8.9
Mortgage-backed securities	57,282	56,699	51,390	11.5
Earning assets	549,905	536,271	518,975	6.0
Long-term assets (5+ years)	84,827	81,958	76,185	11.3
Volatile liabilities	140,847	141,276	122,933	14.6
Foreign office deposits	26,554	26,970	22,238	19.4
Unused loan commitments	232,617	218,682	205,335	13.3
Off-balance-sheet derivatives	726,895	746,974	697,174	4.3

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$37,855	$41,531	-5.6	$9,850	$10,092	-2.4
Total interest expense	15,673	18,911	-17.1	3,892	4,219	-7.8
Net interest income	23,543	22,620	4.1	5,958	5,873	1.4
Provision for loan losses	2,188	3,591	-39.1	524	782	-32.9
Total noninterest income	9,478	8,181	15.9	2,441	2,113	15.5
Total noninterest expense	20,591	19,519	5.5	5,327	5,070	5.1
Securities gains (losses)	398	428	-7.1	79	93	-14.7
Applicable income taxes	3,169	2,270	39.6	787	667	18.1
Extraordinary gains, net	148	(45)	430.1	11	(52)	122.2
Net income	7,618	5,804	31.3	1,852	1,510	22.6
Net charge-offs	1,812	3,283	-44.8	507	691	-26.6
Cash dividends	4,858	2,942	65.1	1,840	1,050	75.3
Net operating income	7,149	5,525	29.4	1,771	1,489	18.9

N/A - Not available

Midwest Region

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	°₀Change 92 4-93 4
Number of institutions reporting	2,706	2,726	2,791	-3 0
Total employees (full-time equivalent)	111,984	111,391	111,053	0 8
CONDITION DATA				
Total assets	$251,314	$245 638	$241,991	3 9
Loans secured by real estate	62,835	61,955	58,516	7 4
Commercial & industrial loans	29,490	29,085	27 926	5 6
Loans to individuals	31 908	28,667	25,688	24 2
Farm loans	14,402	14,131	13,644	5 6
Other loans & leases	8,436	8 664	8,303	1 6
Less. Unearned income	182	197	244	-25 2
Total loans & leases	146,888	142,305	133,833	9 8
Less: Reserve for losses	2,860	2,871	2,734	4 6
Net loans & leases	144,027	139,434	131,099	9 9
Investment securities	70,516	70,723	71,048	-0 8
Other real estate owned	609	693	940	-35 2
Goodwill and other intangibles	1.068	921	843	26 6
All other assets	35,094	33,867	38,060	-7 8
Total liabilities and capital	251,314	245,638	241,991	3 9
Noninterest-bearing deposits	39,392	34,960	35,063	12 4
Interest-bearing deposits	160,650	159,877	162,568	-1 2
Other borrowed funds	24,798	24,279	19,439	27 6
Subordinated debt	702	711	526	33 4
All other liabilities	3,937	4,288	3,989	-1 3
Equity capital	21,836	21,523	20,406	7 0
Loans and leases 30-89 days past due	2,090	2,064	2,355	-11.3
Noncurrent loans and leases	1,884	2,097	1,913	-1 5
Restructured loans and leases	316	323	488	-35.3
Direct and indirect investments in real estate	8	6	5	52 0
1-4 Family residential mortgages	35,004	34,540	32,271	8 5
Mortgage-backed securities	22,171	23,066	22,948	-3 4
Earning assets	227,824	222,469	216,540	5 2
Long-term assets (5+ years)	31,072	30,506	30,238	2 8
Volatile liabilities	38,287	38,145	32,258	18 7
Foreign office deposits	1,041	1,304	481	116 5
Unused loan commitments	124,709	117,666	102,451	21 7
Off-balance-sheet derivatives	38,586	26,318	31,542	22 3

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93 4
Total interest income	$97,855	$17,176	-3.8	$4,466	$4,189	6 6
Total interest expense	6,503	7,805	-16.7	1,715	1,750	-2 0
Net interest income	10,029	9,371	7.0	2,751	2,438	12 8
Provision for loan losses	927	1,176	-21.2	206	283	-27 3
Total noninterest income	5,595	4,819	16.1	1,535	1,292	18 8
Total noninterest expense	9,562	8,821	8.4	2,715	2,381	14.1
Securities gains (losses)	131	213	-38.5	36	37	-2 4
Applicable income taxes	1,790	1 [illegible]37	24.6	487	408	19 5
Extraordinary gains, net	60	82	-27.2	46	74	-37.5
Net income	3,536	3,051	15.9	960	769	24 9
Net charge-offs	798	1,016	-21.5	218	292	-25 4
Cash dividends	2,566	1,851	38.6	724	801	-9.5
Net operating income	3,388	2,821	20.1	890	671	32.5

N/A - Not available

Southwest Region

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	1 937	1,966	2,047	-5 4
Total employees (full-time equivalent)	150 273	148,810	143,543	4 7
CONDITION DATA				
Total assets	$293 865	$290,897	$282,633	4 0
Loans secured by real estate	64,253	62,900	55,994	14 8
Commercial & industrial loans	36 044	34 785	34 845	3 4
Loans to individuals	28,476	28,231	25,764	10 5
Farm loans	5,693	5,761	5 074	12 2
Other loans & leases	8,787	8,421	8,575	2 5
Less: Unearned income	861	914	985	-12 5
Total loans & leases	142,391	139 164	129 268	10 2
Less: Reserve for losses	2,612	2,718	2,964	-11 9
Net loans & leases	139,779	136,466	126,304	10 7
Investment securities	103,596	102,785	96 487	7 4
Other real estate owned	1,047	1,233	1,874	-44 2
Goodwill and other intangibles	1,719	1,691	973	76 8
All other assets	47,725	48,722	56 994	-16 3
Total liabilities and capital	293,865	290,897	282,633	4 0
Noninterest-bearing deposits	53,303	49,961	50,390	5 8
Interest-bearing deposits	192,638	190,844	191,739	0 6
Other borrowed funds	20,127	21,940	16,413	22 6
Subordinated debt	679	684	577	17 6
All other liabilities	2,645	3,231	2,852	-7 3
Equity capital	24,274	24,236	20,661	17 5
Loans and leases 30-89 days past due	1,649	1,601	1,730	-4 7
Noncurrent loans and leases	1,635	1,929	2,337	-30 1
Restructured loans and leases	455	510	558	-18 5
Direct and indirect investments in real estate	3	10	9	-71 3
1-4 Family residential mortgages	35,183	34,777	29,116	20 7
Mortgage-backed securities	40,700	40,689	36,978	10 1
Earning assets	262,760	260,922	250,335	5 0
Long-term assets (5+ years)	42,990	43,735	42,522	1 1
Volatile liabilities	47,015	49,296	44,631	5 3
Foreign office deposits	1,644	1,915	1,435	14 6
Unused loan commitments	45,838	45,794	41,190	11 3
Off-balance-sheet derivatives	33,044	31,808	28,033	17 9

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93 4
Total interest income	$97,855	$18,117	-2.8	$4,683	$4,463	5.0
Total interest expense	6,528	7,756	-15 6	1,691	1,722	-1 8
Net interest income	11,084	10,362	7.0	2,992	2,741	9 2
Provision for loan losses	169	735	-77.0	43	133	-67 4
Total noninterest income	4,399	3,990	10.3	1,144	1,053	8 6
Total noninterest expense	10,685	9,940	7.5	2,973	2,741	8 5
Securities gains (losses)	194	309	-37.0	37	13	177 4
Applicable income taxes	1,450	1,017	42.6	329	253	30.1
Extraordinary gains, net	568	101	462.1	97	36	168 9
Net income	3,962	3,069	29.1	924	716	29 1
Net charge-offs	375	826	-54.7	138	214	-35.3
Cash dividends	1,690	1,257	34.4	814	558	45.9
Net operating income	3,236	2,724	18.8	799	676	18.0

N/A - Not available

West Region

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	1,207	1,217	1,289	-6.4
Total employees (full-time equivalent)	269,074	267,832	271,240	-0.8
CONDITION DATA				
Total assets	$554,290	$547,655	$541,672	2.3
Loans secured by real estate	174,227	172,255	171,936	1.3
Commercial & industrial loans	82,846	81,200	84,727	-2.2
Loans to individuals	62,144	61,040	62,118	0.0
Farm loans	7,725	7,711	7,290	6.0
Other loans & leases	33,740	31,571	29,845	13.1
Less: Unearned income	554	572	620	-10.6
Total loans & leases	360,128	353,205	355,296	1.4
Less: Reserve for losses	10,311	10,445	10,649	-3.2
Net loans & leases	349,816	342,760	344,647	1.5
Investment securities	101,182	97,475	85,227	18.7
Other real estate owned	2,811	4,220	5,620	-50.0
Goodwill and other intangibles	5,918	6,048	5,870	0.8
All other assets	94,564	97,151	100,308	-5.7
Total liabilities and capital	554,290	547,655	541,672	2.3
Noninterest-bearing deposits	111,119	108,714	107,803	3.1
Interest-bearing deposits	331,418	330,093	333,186	-0.5
Other borrowed funds	42,725	38,323	35,540	20.2
Subordinated debt	7,557	7,540	7,151	5.7
All other liabilities	13,032	15,158	13,745	-5.2
Equity capital	48,440	47,827	44,247	9.5
Loans and leases 30-89 days past due	4,693	5,144	6,713	-30.1
Noncurrent loans and leases	9,272	10,230	13,044	-28.9
Restructured loans and leases	2,931	2,985	2,839	3.2
Direct and indirect investments in real estate	238	309	448	-46.8
1-4 Family residential mortgages	96,372	93,993	92,193	4.4
Mortgage-backed securities	46,444	45,515	35,583	30.5
Earning assets	487,899	477,940	467,835	4.3
Long-term assets (5+ years)	90,432	89,008	85,745	5.5
Volatile liabilities	101,263	96,206	94,109	7.6
Foreign office deposits	30,035	28,117	24,312	23.5
Unused loan commitments	220,350	215,179	207,149	6.4
Off-balance-sheet derivatives	1,019,398	1,063,331	894,334	14.0

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$97,855	$39,069	-6.5	$9,146	$9,650	-5.2
Total interest expense	11,615	14,877	-21.9	2,832	3,222	-12.1
Net interest income	24,917	24,192	3.0	6,314	6,428	-1.8
Provision for loan losses	3,167	4,819	-34.3	793	1,296	-38.8
Total noninterest income	12,005	10,394	15.5	3,206	2,744	16.8
Total noninterest expense	24,124	22,993	4.9	6,238	6,189	0.8
Securities gains (losses)	170	347	-50.9	29	42	-31.5
Applicable income taxes	3,794	2,835	33.9	976	714	36.7
Extraordinary gains, net	74	(7)	1193.6	12	(11)	204.1
Net income	6,081	4,279	42.1	1,554	1,003	54.8
Net charge-offs	3,383	4,568	-25.9	851	1,597	-46.7
Cash dividends	3,038	1,643	84.9	1,300	777	67.2
Net operating income	5,890	4,050	45.5	1,522	982	55.0

N/A - Not available

Quarterly Banking Profile

December 31, 1993

Alabama

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Number of institutions reporting	214	214	217	-1.4
Total employees (full-time equivalent)	26,727	24,892	24,096	10.9
CONDITION DATA				
Total assets	$46,896	$46,057	$43,845	7.0
Loans secured by real estate	15,984	15,186	13,431	19.0
Commercial & industrial loans	6,782	6,566	6,345	6.9
Loans to individuals	5,823	5,745	5,587	4.2
Farm loans	289	335	263	9.8
Other loans & leases	1,620	1,587	1,687	-4.0
Less: Unearned income	237	250	281	-15.7
Total loans & leases	30,262	29,169	27,032	12.0
Less: Reserve for losses	454	447	393	15.5
Net loans & leases	29,808	28,722	26,639	11.9
Investment securities	11,500	11,788	11,903	-3.4
Other real estate owned	87	100	127	-31.8
Goodwill and other intangibles	159	152	143	11.7
All other assets	5,342	5,296	5,035	6.2
Total liabilities and capital	46,896	46,057	43,845	7.0
Noninterest-bearing deposits	6,687	6,297	6,088	9.8
Interest-bearing deposits	30,686	29,988	29,275	4.8
Other borrowed funds	4,904	5,319	4,419	11.0
Subordinated debt	51	51	26	95.6
All other liabilities	624	588	535	16.7
Equity capital	3,944	3,613	3,503	12.6
Loans and leases 30-89 days past due	336	281	313	7.5
Noncurrent loans and leases	205	214	255	-19.6
Restructured loans and leases	29	25	14	101.8
Direct and indirect investments in real estate	0	0	0	-96.9
1-4 Family residential mortgages	9,243	8,710	7,385	25.3
Mortgage-backed securities	4,509	5,125	5,482	-18.0
Earning assets	42,754	42,169	39,832	7.3
Long-term assets (5+ years)	6,485	6,936	7,509	-13.7
Volatile liabilities	9,437	9,637	8,798	7.3
Foreign office deposits	255	331	291	-12.3
Unused loan commitments	9,970	9,486	7,501	32.9
Off-balance-sheet derivatives	9,175	8,744	5,569	64.7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$3,151	$3,207	-1.8	$795	$793	0.2
Total interest expense	1,245	1,405	-11.4	313	317	-1.2
Net interest income	1,906	1,802	5.8	482	476	1.2
Provision for loan losses	134	191	-30.2	30	59	-49.4
Total noninterest income	636	568	12.0	171	149	14.6
Total noninterest expense	1,549	1,452	6.8	413	391	5.7
Securities gains (losses)	26	18	43.2	8	3	165.3
Applicable income taxes	274	220	24.5	67	54	23.5
Extraordinary gains, net	6	1	988.7	0	0	121.2
Net income	616	525	17.5	151	124	21.2
Net charge-offs	78	123	-36.0	27	41	-33.8
Cash dividends	264	217	22.0	78	68	14.9
Net operating income	591	511	15.7	145	122	18.7

Quarterly Banking Profile

December 31, 1993

Alaska

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	8	8	8	0 0
Total employees (full-time equivalent)	2,806	2,733	2,630	6.7
CONDITION DATA				
Total assets	$4,979	$4,998	$4,739	5.1
Loans secured by real estate	1,328	1,311	946	40 4
Commercial & industrial loans	769	795	727	5 7
Loans to individuals	406	385	345	17 8
Farm loans	3	4	4	-26 0
Other loans & leases	146	161	131	11.6
Less Unearned income	6	5	2	272 8
Total loans & leases	2,647	2,650	2,152	23 0
Less Reserve for losses	38	43	40	-4 7
Net loans & leases	2,609	2,607	2,112	23 5
Investment securities	1,846	1,843	1,990	-7.2
Other real estate owned	15	15	17	-12 3
Goodwill and other intangibles	13	14	15	-15.1
All other assets	496	519	605	-17 9
Total liabilities and capital	4,979	4,998	4,739	5 1
Noninterest-bearing deposits	1,163	1,168	1,075	8 2
Interest-bearing deposits	2,618	2,575	2,529	3 5
Other borrowed funds	497	560	496	0.1
Subordinated debt	0	0	0	NA
All other liabilities	37	40	35	2 8
Equity capital	665	655	604	10 1
Loans and leases 30-89 days past due	34	45	31	11 3
Noncurrent loans and leases	25	31	25	-0 2
Restructured loans and leases	8	9	6	-11.7
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	668	673	404	66 9
Mortgage-backed securities	526	568	698	-24 6
Earning assets	4,531	4,493	4,210	7 6
Long-term assets (5+ years)	1,314	1,378	1,316	-0 2
Volatile liabilities	944	1,033	949	-0.5
Foreign office deposits	0	1	0	-100 0
Unused loan commitments	736	617	632	16 4
Off-balance-sheet derivatives	170	131	52	226 9

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$349	$344	1.3	$88	$86	2.3
Total interest expense	97	111	-12 3	25	24	1.6
Net interest income	251	233	7 8	64	62	2.6
Provision for loan losses	12	16	-26.2	6	10	-43.2
Total noninterest income	78	69	12 8	19	18	8.7
Total noninterest expense	197	183	8 1	53	48	11.0
Securities gains (losses)	2	5	-64.3	0	0	-56.6
Applicable income taxes	38	33	16 4	7	6	13.2
Extraordinary gains, net	0	0	NA	0	0	NA
Net income	84	77	10 3	17	16	9 7
Net charge-offs	14	15	-9 9	11	12	-6 9
Cash dividends	37	32	15.7	12	12	-0 3
Net operating income	83	73	13 8	17	15	10 2

Quarterly Banking Profile
December 31, 1993

Arizona

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	37	37	38	-2 6
Total employees (full-time equivalent)	20,022	19,557	19,687	1 7
CONDITION DATA				
Total assets	$37,104	$35,631	$36,264	2 3
Loans secured by real estate	8,171	7,871	7,105	15 0
Commercial & industrial loans	2,705	2,466	2,647	2 2
Loans to individuals	7,153	6,726	6,117	16 9
Farm loans	373	343	348	7.2
Other loans & leases	3,174	2,899	3,891	-18 4
Less: Unearned income	12	11	10	11 1
Total loans & leases	21,563	20,294	20,098	7 3
Less Reserve for losses	469	507	543	-13 7
Net loans & leases	21,094	19,787	19,555	7 9
Investment securities	10,354	10,053	8,220	26 0
Other real estate owned	55	72	171	-67 7
Goodwill and other intangibles	684	676	765	-10 6
All other assets	4,916	5,043	7,554	-34 9
Total liabilities and capital	37,104	35,631	36,264	2 3
Noninterest-bearing deposits	6,899	6,381	6,180	11 6
Interest-bearing deposits	22,801	22,695	23,588	-3.3
Other borrowed funds	3,334	2,397	2,595	28 5
Subordinated debt	236	236	67	252.1
All other liabilities	470	676	516	-9 0
Equity capital	3,365	3,246	3,317	1 4
Loans and leases 30-89 days past due	237	254	359	-34 2
Noncurrent loans and leases	264	305	564	-53 1
Restructured loans and leases	6	3	3	135 2
Direct and indirect investments in real estate	0	0	0	-100 0
1-4 Family residential mortgages	5,536	5,373	4,705	19 3
Mortgage-backed securities	6,275	6,166	3,704	69 4
Earning assets	32,819	31,254	31,579	3 9
Long-term assets (5+ years)	7,117	7,292	5,827	22 1
Volatile liabilities	4,685	3,796	4,078	14 9
Foreign office deposits	0	0	0	NA
Unused loan commitments	32,062	30,128	29,604	8 3
Off-balance-sheet derivatives	6,177	6,074	3,287	88 0

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$2,276	$2,204	3.3	$608	$585	4 0
Total interest expense	759	939	-19 2	198	224	-11 8
Net interest income	1,517	1,265	19 9	411	361	13.7
Provision for loan losses	96	228	-57.8	25	68	-62.9
Total noninterest income	602	587	2 7	158	160	-0 9
Total noninterest expense	1,494	1,457	2.6	408	413	-1.2
Securities gains (losses)	2	13	-86.8	0	0	238 6
Applicable income taxes	208	85	146.2	52	21	154.0
Extraordinary gains, net	(11)	19	-160.9	0	6	-94 2
Net income	311	115	171.1	84	25	239 1
Net charge-offs	140	263	-47.0	63	78	-19 0
Cash dividends	101	2	4644.0	10	1	1744 2
Net operating income	321	86	274 8	83	19	350 1

Quarterly Banking Profile

December 31, 1993

Arkansas

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	257	258	259	-0 8
Total employees (full-time equivalent)	13,332	13,144	12,840	3 8
CONDITION DATA				
Total assets	$26,019	$25,469	$25,033	3 9
Loans secured by real estate	7,521	7,276	6,535	15 1
Commercial & industrial loans	2,167	2,060	2,125	2 0
Loans to individuals	2,782	2,728	2,468	12 7
Farm loans	697	690	608	14 6
Other loans & leases	297	292	375	-20 8
Less: Unearned income	76	80	83	-9 0
Total loans & leases	13,388	13,166	12,026	11.3
Less: Reserve for losses	209	207	196	6 4
Net loans & leases	13,179	12,959	11,832	11 4
Investment securities	9,644	9,497	9,566	0 8
Other real estate owned	56	66	96	-41 2
Goodwill and other intangibles	86	81	77	11 2
All other assets	3,054	2,866	3,462	-11.8
Total liabilities and capital	26,019	25,469	25,033	3 9
Noninterest-bearing deposits	3,591	3,349	3,379	6 3
Interest-bearing deposits	19,211	18,908	18,861	1 9
Other borrowed funds	678	665	425	59 6
Subordinated debt	1	1	1	-50 3
All other liabilities	174	176	183	-6 2
Equity capital	2,364	2,368	2,183	8 5
Loans and leases 30-89 days past due	170	151	173	-2.1
Noncurrent loans and leases	116	120	140	-16 9
Restructured loans and leases	9	10	14	-39 4
Direct and indirect investments in real estate	1	1	1	16 2
1-4 Family residential mortgages	3,950	3,821	3,466	14 8
Mortgage-backed securities	2,293	2,306	2,354	-2.6
Earning assets	23,883	23,341	22,760	4 9
Long-term assets (5+ years)	3,863	3,662	3,584	7.8
Volatile liabilities	3,411	3,342	2,984	14 3
Foreign office deposits	0	0	0	NA
Unused loan commitments	2,080	2,045	1,592	30 7
Off-balance-sheet derivatives	117	135	75	57.0

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,639	$1,749	-6 3	$412	$426	-3 4
Total interest expense	640	764	-16.3	160	171	-6.3
Net interest income	1,000	985	1.5	252	255	-1 4
Provision for loan losses	31	52	-39 9	9	15	-41 0
Total noninterest income	290	268	8.4	78	70	11 4
Total noninterest expense	796	768	3.7	212	205	3.5
Securities gains (losses)	18	19	-5 1	2	2	-13 0
Applicable income taxes	143	133	7.5	30	36	-15.8
Extraordinary gains, net	15	3	493 4	8	0	1631 2
Net income	352	321	9 8	88	72	23.3
Net charge-offs	19	44	-57 4	7	15	-51.8
Cash dividends	193	145	32.7	97	66	44.5
Net operating income	324	305	6.5	78	70	12 8

Quarterly Banking Profile
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California

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	425	430	455	-6.6
Total employees (full-time equivalent)	154,753	156,042	160,937	-3.8
CONDITION DATA				
Total assets	$328,533	$328,611	$329,683	-0.4
Loans secured by real estate	114,943	114,708	120,091	-4.3
Commercial & industrial loans	54,422	53,855	57,495	-5.3
Loans to individuals	24,406	24,359	29,414	-17.0
Farm loans	3,210	3,006	3,080	4.2
Other loans & leases	23,776	22,151	19,480	22.1
Less: Unearned income	426	450	509	-16.3
Total loans & leases	220,330	217,630	229,051	-3.8
Less: Reserve for losses	7,206	7,300	7,583	-5.0
Net loans & leases	213,124	210,329	221,468	-3.8
Investment securities	49,963	46,857	38,512	29.7
Other real estate owned	2,454	3,746	4,846	-49.4
Goodwill and other intangibles	3,568	3,665	3,778	-5.6
All other assets	59,425	64,014	61,079	-2.7
Total liabilities and capital	328,533	328,611	329,683	-0.4
Noninterest-bearing deposits	69,132	69,448	89,744	-0.9
Interest-bearing deposits	197,907	197,824	201,480	-1.8
Other borrowed funds	18,280	16,533	16,245	12.5
Subordinated debt	6,520	6,502	6,492	0.4
All other liabilities	8,801	10,445	9,776	-10.0
Equity capital	27,894	27,859	25,946	7.5
Loans and leases 30-89 days past due	3,090	3,520	4,556	-32.2
Noncurrent loans and leases	7,647	8,387	10,517	-27.3
Restructured loans and leases	2,829	2,887	2,701	4.7
Direct and indirect investments in real estate	231	301	436	-47.0
1-4 Family residential mortgages	64,143	62,695	65,317	-1.9
Mortgage-backed securities	25,284	24,568	18,493	36.7
Earning assets	288,602	284,728	282,620	2.1
Long-term assets (5+ years)	53,019	52,236	53,536	-1.0
Volatile liabilities	64,577	62,059	61,415	5.2
Foreign office deposits	28,017	26,127	22,183	26.3
Unused loan commitments	111,938	108,259	121,903	-8.2
Off-balance-sheet derivatives	943,363	984,829	838,865	12.5

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$21,337	$23,835	-10.5	$5,251	$5,854	-10.3
Total interest expense	6,725	9,098	-26.1	1,612	1,915	-15.8
Net interest income	14,612	14,737	-0.9	3,639	3,939	-7.6
Provision for loan losses	2,399	3,677	-34.8	616	1,022	-39.8
Total noninterest income	6,759	6,307	7.2	1,743	1,575	10.8
Total noninterest expense	14,380	14,168	1.4	3,691	3,787	-2.6
Securities gains (losses)	129	277	-53.4	22	36	-39.3
Applicable income taxes	2,019	1,592	27.0	480	380	26.9
Extraordinary gains, net	95	(7)	1477.1	3	7	-54.4
Net income	2,798	1,858	50.7	621	368	69.0
Net charge-offs	2,587	3,457	-25.2	623	1,283	-51.5
Cash dividends	1,047	484	116.1	677	154	338.4
Net operating income	2,615	1,680	55.7	602	334	80.8

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Colorado

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	322	324	350	-8 0
Total employees (full-time equivalent)	17,517	17,527	17,322	1.1
CONDITION DATA				
Total assets	$34,427	$33,324	$29,589	16 4
Loans secured by real estate	8,145	7,904	5,779	40 9
Commercial & industrial loans	2,901	2,620	2,629	10 4
Loans to individuals	3,806	4,498	3,933	-3.2
Farm loans	727	724	677	7.5
Other loans & leases	1,148	1,045	621	84 9
Less Unearned income	29	27	24	20 9
Total loans & leases	16,699	16,764	13,615	22.7
Less. Reserve for losses	386	389	398	-2.9
Net loans & leases	16,312	16,375	13,217	23 4
Investment securities	10,980	10,949	9,795	12.1
Other real estate owned	70	97	141	-50 3
Goodwill and other intangibles	110	88	63	75 4
All other assets	6,955	5,815	6,373	9 1
Total liabilities and capital	34,427	33,324	29,589	16 4
Noninterest-bearing deposits	7,386	6,901	6,465	14 2
Interest-bearing deposits	22,630	22,251	19,306	17.2
Other borrowed funds	994	997	1,186	-16 1
Subordinated debt	41	41	40	2.2
All other liabilities	586	495	404	45.0
Equity capital	2,791	2,639	2,188	27.5
Loans and leases 30-89 days past due	200	225	183	9.7
Noncurrent loans and leases	133	153	160	-17.3
Restructured loans and leases	24	23	30	-19.5
Direct and indirect investments in real estate	2	2	8	-75.7
1-4 Family residential mortgages	4,571	4,479	2,909	55.0
Mortgage-backed securities	4,934	4,880	4,106	20 2
Earning assets	30,579	29,468	25,774	18.7
Long-term assets (5+ years)	5,870	5,833	4,690	25.2
Volatile liabilities	2,300	2,408	2,580	-10.8
Foreign office deposits	29	50	44	-34 0
Unused loan commitments	7,547	10,394	7,941	-5.0
Off-balance-sheet derivatives	3,116	3,047	2,585	20.5

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$2,142	$2,025	5.8	$538	$507	6 2
Total interest expense	699	759	-7.9	175	168	4 1
Net interest income	1,442	1,265	14 0	363	338	7.2
Provision for loan losses	(12)	77	-115.7	1	14	-93 4
Total noninterest income	902	708	27.5	289	162	78.1
Total noninterest expense	1,639	1,490	10.1	400	368	8.6
Securities gains (losses)	10	18	-43.9	2	2	11.5
Applicable income taxes	236	114	107.1	81	28	214.8
Extraordinary gains, net	11	11	-0.3	2	9	-80 8
Net income	503	322	56 2	174	101	68.2
Net charge-offs	38	94	-59.2	9	28	-68 1
Cash dividends	262	219	19 8	131	115	13 6
Net operating income	484	297	63.0	170	90	85.4

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Connecticut

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	46	46	48	-4.2
Total employees (full-time equivalent)	13,167	13,045	14,095	-6 6
CONDITION DATA				
Total assets	$32,929	$31,707	$32,840	0.3
Loans secured by real estate	10,899	10,647	11,795	-7 6
Commercial & industrial loans	4,463	4,201	4,804	-7 1
Loans to individuals	1,568	1,275	1,276	22 8
Farm loans	5	5	12	-60 3
Other loans & leases	1,227	1,071	1,118	9 8
Less Unearned income	11	14	18	-37 6
Total loans & leases	18,150	17,185	18,988	-4 4
Less Reserve for losses	637	640	773	-17 5
Net loans & leases	17,513	16,545	18,215	-3 9
Investment securities	11,277	10,493	8,344	34 2
Other real estate owned	138	184	428	-67 8
Goodwill and other intangibles	187	174	176	6 4
All other assets	3,815	4,311	5,678	-32 1
Total liabilities and capital	32,929	31,707	32,840	0 3
Noninterest-bearing deposits	6,092	5,648	6,422	-5 1
Interest-bearing deposits	17,508	17,794	20,500	-14 6
Other borrowed funds	6,356	5,602	2,987	112 8
Subordinated debt	46	46	46	0 0
All other liabilities	493	288	727	-32.1
Equity capital	2,434	2,329	2,158	12.8
Loans and leases 30-89 days past due	318	432	444	-28 3
Noncurrent loans and leases	515	591	814	-36 7
Restructured loans and leases	97	90	176	-45 0
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	7,131	6,779	7,155	0 0
Mortgage-backed securities	5,602	5,210	4,762	17 6
Earning assets	29,351	28,331	28,103	4 2
Long-term assets (5+ years)	8,257	9,352	8,857	-6 8
Volatile liabilities	7,720	7,014	4,769	61 9
Foreign office deposits	387	253	309	25 2
Unused loan commitments	7,641	6,399	6,122	24 8
Off-balance-sheet derivatives	15,103	13,375	7,174	110 5

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93 4
Total interest income	$1,903	$2,164	-12.1	$499	$513	-2 7
Total interest expense	667	943	-29.3	162	199	-18 8
Net interest income	1,236	1,221	1.2	338	314	7.5
Provision for loan losses	189	333	-43.3	41	67	-38 6
Total noninterest income	551	563	-2.3	166	128	29 6
Total noninterest expense	1,405	1,526	-7 9	357	427	-16.5
Securities gains (losses)	108	133	-18 7	(9)	86	-110 8
Applicable income taxes	114	74	53 6	7	32	-78 1
Extraordinary gains, net	38	6	554.7	(3)	4	-179 5
Net income	225	(9)	2494 1	85	6	1303 9
Net charge-offs	244	440	-44 4	45	97	-53 0
Cash dividends	132	4	2943 3	36	1	2486 3
Net operating income	119	(109)	209 1	98	(55)	278 1

Quarterly Banking Profile

December 31, 1993

Delaware

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Number of institutions reporting	36	36	39	-7.7
Total employees (full-time equivalent)	26,970	26,092	22,191	21.5
CONDITION DATA				
Total assets	$85,848	$80,321	$76,990	11.5
Loans secured by real estate	4,538	4,579	4,896	-7.3
Commercial & industrial loans	4,966	3,708	5,168	-3.9
Loans to individuals	52,736	48,680	46,864	12.5
Farm loans	51	49	53	-3.1
Other loans & leases	2,858	1,792	2,040	40.1
Less: Unearned income	51	44	46	9.8
Total loans & leases	65,098	58,763	58,976	10.4
Less: Reserve for losses	2,015	2,149	2,174	-7.3
Net loans & leases	63,083	56,614	56,802	11.1
Investment securities	11,057	12,621	9,530	16.0
Other real estate owned	63	70	84	-25.0
Goodwill and other intangibles	476	493	548	-13.1
All other assets	11,168	10,523	10,026	11.4
Total liabilities and capital	85,848	80,321	76,990	11.5
Noninterest-bearing deposits	2,779	2,719	2,794	-0.5
Interest-bearing deposits	32,093	30,648	30,808	4.2
Other borrowed funds	38,215	34,704	31,464	21.5
Subordinated debt	1,253	1,253	1,112	12.6
All other liabilities	3,234	2,856	2,906	11.3
Equity capital	8,274	8,141	7,906	4.7
Loans and leases 30-89 days past due	1,222	1,191	1,246	-2.0
Noncurrent loans and leases	998	961	1,033	-3.4
Restructured loans and leases	9	6	17	-47.6
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	2,623	2,630	2,866	-9.0
Mortgage-backed securities	2,898	2,998	2,235	29.7
Earning assets	77,636	73,011	69,702	11.4
Long-term assets (5+ years)	4,617	5,023	4,300	7.4
Volatile liabilities	55,319	51,002	48,421	14.3
Foreign office deposits	4,386	3,734	3,532	24.2
Unused loan commitments	295,509	283,104	256,142	15.4
Off-balance-sheet derivatives	71,218	88,815	39,108	82.1

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$8,026	$8,029	-0.0	$2,040	$1,991	2.5
Total interest expense	2,529	2,884	-12.3	651	645	1.0
Net interest income	5,497	5,145	6.8	1,389	1,346	3.2
Provision for loan losses	2,059	2,619	-21.4	400	652	-38.6
Total noninterest income	5,637	4,649	21.3	1,593	1,183	34.6
Total noninterest expense	5,405	4,405	22.7	1,439	1,204	19.5
Securities gains (losses)	71	57	26.0	11	33	-66.7
Applicable income taxes	1,300	1,016	28.0	441	254	74.0
Extraordinary gains, net	3	(28)	109.5	0	(28)	99.7
Net income	2,444	1,782	37.1	712	424	68.1
Net charge-offs	1,804	2,153	-16.2	415	524	-20.9
Cash dividends	2,378	1,096	116.9	846	225	275.8
Net operating income	2,394	1,773	35.0	705	431	63.6

Quarterly Banking Profile

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District Of Columbia

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	18	18	20	-10 0
Total employees (full-time equivalent)	3,898	3,998	4,279	-8 9
CONDITION DATA				
Total assets	$13,293	$13,300	$13,662	-2 7
Loans secured by real estate	3,648	3,385	3,380	7 9
Commercial & industrial loans	1,135	1,168	1,423	-20 2
Loans to individuals	321	333	375	-14 5
Farm loans	0	0	0	2400 0
Other loans & leases	500	514	704	-29 0
Less: Unearned income	13	10	13	-4 9
Total loans & leases	5,591	5,391	5,869	-4 7
Less: Reserve for losses	429	418	446	-3 8
Net loans & leases	5,162	4,972	5,423	-4 8
Investment securities	4,517	4,797	4,023	12 3
Other real estate owned	203	218	398	-49 0
Goodwill and other intangibles	166	91	35	368 6
All other assets	3,245	3,222	3,783	-14 2
Total liabilities and capital	13,293	13,300	13,662	-2.7
Noninterest-bearing deposits	2,527	2,348	2,434	3.8
Interest-bearing deposits	7,275	7,636	8,580	-15.2
Other borrowed funds	1,980	2,003	1,312	50 9
Subordinated debt	10	12	12	-14 2
All other liabilities	205	197	298	-31 2
Equity capital	1,295	1,103	1,025	26 3
Loans and leases 30-89 days past due	102	63	167	-39 2
Noncurrent loans and leases	344	464	559	-38 4
Restructured loans and leases	6	7	16	-62 6
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	1,957	1,572	1,338	46 7
Mortgage-backed securities	2,646	2,995	2,049	29 2
Earning assets	11,567	11,745	11,795	-1 9
Long-term assets (5+ years)	3,233	2,830	2,413	34 0
Volatile liabilities	3,116	3,402	3,330	-6 4
Foreign office deposits	571	655	896	-36 4
Unused loan commitments	1,494	1,591	1,767	-15 5
Off-balance-sheet derivatives	1,402	1,637	1,596	-12 1

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$540	$862	-37 4	$179	$200	-10 2
Total interest expense	208	430	-51 6	66	90	-26 9
Net interest income	332	433	-23 3	114	110	3 5
Provision for loan losses	78	167	-53.5	13	37	-64 7
Total noninterest income	177	235	-24.8	65	59	10 5
Total noninterest expense	465	634	-26.7	128	148	-13.8
Securities gains (losses)	25	74	-66 5	(1)	6	-113.2
Applicable income taxes	28	(48)	156.9	12	(18)	163 8
Extraordinary gains, net	4	3	26 4	1	(3)	118 8
Net income	(33)	(9)	-286.2	26	4	505.0
Net charge-offs	61	298	-79 4	2	48	-96 0
Cash dividends	8	1	1037 4	1	0	298 5
Net operating income	(62)	(74)	16 9	26	(10)	360.9

Quarterly Banking Profile
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Florida

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	375	396	407	-7 9
Total employees (full-time equivalent)	56,769	56,338	60,585	-6 3
CONDITION DATA				
Total assets	$150,192	$145,917	$147,434	1.9
Loans secured by real estate	56,692	55,421	52,993	7 0
Commercial & industrial loans	12,739	12,237	11,667	9 2
Loans to individuals	17,466	16,935	15,683	11 4
Farm loans	408	335	355	15 1
Other loans & leases	3,889	3,695	3,923	-0 9
Less Unearned income	181	202	553	-67 2
Total loans & leases	91,012	88,420	84,068	8 3
Less Reserve for losses	1,759	1,753	1,661	5 9
Net loans & leases	89,253	86,668	82,407	8 3
Investment securities	36,004	36,138	34,888	3 2
Other real estate owned	811	981	1,346	-39 8
Goodwill and other intangibles	919	857	901	2 0
All other assets	23,205	21,273	27,891	-16 8
Total liabilities and capital	150,192	145,917	147,434	1.9
Noninterest-bearing deposits	24,237	22,704	23,562	2 9
Interest-bearing deposits	99,192	96,960	100,831	-1.6
Other borrowed funds	13,790	13,340	11,054	24.8
Subordinated debt	153	154	150	1 9
All other liabilities	1,468	1,523	1,293	13 6
Equity capital	11,353	11,237	10,544	7 7
Loans and leases 30-89 days past due	1,040	1,137	1,094	-5 0
Noncurrent loans and leases	1,542	1,900	1,881	-18 1
Restructured loans and leases	108	115	117	-7 2
Direct and indirect investments in real estate	30	23	38	-21 1
1-4 Family residential mortgages	33,067	31,975	30,175	9 8
Mortgage-backed securities	13,538	14,449	12,359	9 5
Earning assets	134,289	130,343	129,784	3 5
Long-term assets (5+ years)	22,503	22,335	22,223	1 3
Volatile liabilities	24,020	23,475	22,113	8 6
Foreign office deposits	513	303	265	93 1
Unused loan commitments	29,151	25,515	22,633	28 8
Off-balance-sheet derivatives	15,315	16,848	11,892	28 8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$9,423	$9,961	-5 4	$2,326	$2,431	-4.3
Total interest expense	3,304	4,120	-19 8	805	895	-10 1
Net interest income	6,120	5,841	4 8	1,521	1,536	-1 0
Provision for loan losses	461	714	-35 5	99	201	-50 6
Total noninterest income	2,081	1,997	4 2	535	498	7.6
Total noninterest expense	5,284	5,492	-3 8	1,317	1,512	-13.0
Securities gains (losses)	65	108	-39 8	5	22	-79 5
Applicable income taxes	873	554	57.6	233	123	89 3
Extraordinary gains, net	(1)	9	-105 8	4	2	111 7
Net income	1,648	1,195	38 0	416	221	88.5
Net charge-offs	404	731	-44 8	112	197	-42.9
Cash dividends	1,223	387	215.9	533	209	154 5
Net operating income	1,603	1,112	44.3	407	206	98 1

Quarterly Banking Profile

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Georgia

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	399	405	403	-1 0
Total employees (full-time equivalent)	36,071	36,273	36,930	-2 3
CONDITION DATA				
Total assets	$90,074	$88,127	$77,613	16 1
Loans secured by real estate	24,610	24,935	20,520	20.9
Commercial & industrial loans	14,835	14,752	13,342	11 2
Loans to individuals	13,911	13,088	11,450	21 5
Farm loans	416	479	375	10 9
Other loans & leases	3,381	3,257	4,035	-16 2
Less. Unearned income	122	100	161	-23 9
Total loans & leases	57,230	56,413	49,561	15 5
Less: Reserve for losses	1,066	1,038	907	17 6
Net loans & leases	56,164	55,375	48,655	15 4
Investment securities	18,359	17,990	15,410	19 1
Other real estate owned	235	289	332	-29 2
Goodwill and other intangibles	334	263	218	53 4
All other assets	14,982	14,211	12,999	15 3
Total liabilities and capital	90,074	88,127	77,613	16 1
Noninterest-bearing deposits	13,741	12,659	13,131	4.7
Interest-bearing deposits	49,532	48,897	44,025	12.5
Other borrowed funds	14,713	15,518	10,866	35 4
Subordinated debt	564	387	338	66 9
All other liabilities	3,069	2,687	2,273	35 0
Equity capital	8,455	7,980	6,982	21 1
Loans and leases 30-89 days past due	725	672	790	-8 2
Noncurrent loans and leases	629	797	706	-10 9
Restructured loans and leases	79	75	31	153 1
Direct and indirect investments in real estate	1	1	1	-7 7
1-4 Family residential mortgages	12,744	12,918	9,787	29 4
Mortgage-backed securities	6,041	5,791	5,935	2 0
Earning assets	80,507	78,770	68,724	17 2
Long-term assets (5+ years)	10,097	10,313	11,227	-10 1
Volatile liabilities	20,855	21,627	16,350	27 6
Foreign office deposits	883	702	340	159.7
Unused loan commitments	54,632	50,143	35,719	53 0
Off-balance-sheet derivatives	13,762	14,236	13,195	4 3

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$5,688	$5,654	0.6	$1,472	$1,372	7 3
Total interest expense	2,168	2,411	-10.1	560	530	5 6
Net interest income	3,520	3,243	8.6	912	842	8 4
Provision for loan losses	424	491	-13 7	119	141	-15 9
Total noninterest income	1,554	1,435	8.3	401	366	9 8
Total noninterest expense	3,251	2,983	9.0	885	800	10 5
Securities gains (losses)	24	117	-79.5	3	29	-89 9
Applicable income taxes	442	399	11 0	94	94	0 6
Extraordinary gains, net	11	4	187.7	3	1	89 6
Net income	992	925	7.2	222	203	9 3
Net charge-offs	329	362	-9 1	93	114	-18 3
Cash dividends	445	498	-10.7	144	184	-21 6
Net operating income	963	835	15 4	216	178	21 4

Quarterly Banking Profile
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Hawaii

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	17	17	17	0 0
Total employees (full-time equivalent)	8,740	8,707	8,488	3 0
CONDITION DATA				
Total assets	$22,261	$22,121	$22,437	-0 8
Loans secured by real estate	8,045	7,854	7,512	7 1
Commercial & industrial loans	3,517	3,625	3,741	-6.0
Loans to individuals	1,300	1,273	1,336	-2 6
Farm loans	32	37	50	-36.1
Other loans & leases	1,202	1,173	1,288	-6 6
Less Unearned income	39	37	36	7 9
Total loans & leases	14,058	13,926	13,890	1 2
Less: Reserve for losses	231	225	230	0 7
Net loans & leases	13,827	13,701	13,660	1 2
Investment securities	5,317	5,156	4,435	19 9
Other real estate owned	24	23	12	95.0
Goodwill and other intangibles	125	117	74	68 1
All other assets	2,968	3,125	4,255	-30 3
Total liabilities and capital	22,261	22,121	22,437	-0 8
Noninterest-bearing deposits	2,920	2,681	2,841	2.8
Interest-bearing deposits	11,400	11,471	12,501	-8 8
Other borrowed funds	5,598	5,636	5,073	10 4
Subordinated debt	125	126	2	6572.1
All other liabilities	432	473	417	3.7
Equity capital	1,785	1,735	1,603	11 4
Loans and leases 30-89 days past due	126	144	136	-6.7
Noncurrent loans and leases	225	225	279	-19 5
Restructured loans and leases	7	8	6	24 5
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	4,500	4,427	4,185	6 9
Mortgage-backed securities	1,556	1,367	1,021	52 3
Earning assets	20,344	20,422	20,686	-1 7
Long-term assets (5+ years)	2,593	2,300	2,371	9 4
Volatile liabilities	8,804	8,854	9,137	-3 7
Foreign office deposits	1,744	1,738	1,915	-9 0
Unused loan commitments	7,157	8,052	6,490	10 3
Off-balance-sheet derivatives	2,695	2,446	2,066	30.4

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93 4
Total interest income	$1,468	$1,577	-6.9	$361	$388	-7 0
Total interest expense	576	712	-19 0	137	162	-15 4
Net interest income	892	866	3 0	223	226	-1 0
Provision for loan losses	77	81	-4 6	16	36	-54 7
Total noninterest income	251	196	27 9	70	55	26 4
Total noninterest expense	673	613	9.9	180	163	10.5
Securities gains (losses)	4	5	-14.7	0	1	-75 6
Applicable income taxes	148	136	8 6	36	31	18 6
Extraordinary gains, net	4	11	-59 9	0	11	-100.2
Net income	252	247	1.9	61	63	-3.9
Net charge-offs	76	56	36.0	10	33	-70.9
Cash dividends	86	76	12.8	25	20	22 3
Net operating income	245	233	5.1	60	52	17 3

Quarterly Banking Profile

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Idaho

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	21	20	20	5.0
Total employees (full-time equivalent)	4,827	4,727	4,723	2.2
CONDITION DATA				
Total assets	$10,941	$10,612	$10,062	8.7
Loans secured by real estate	2,535	2,438	2,111	20.1
Commercial & industrial loans	1,576	1,474	1,480	6.5
Loans to individuals	2,405	2,313	1,962	22.6
Farm loans	824	889	763	8.0
Other loans & leases	479	432	426	12.4
Less: Unearned income	1	0	2	-77.1
Total loans & leases	7,818	7,544	6,739	16.0
Less: Reserve for losses	116	114	107	8.2
Net loans & leases	7,703	7,430	6,632	16.1
Investment securities	1,816	1,811	1,801	0.8
Other real estate owned	5	4	10	-53.5
Goodwill and other intangibles	26	27	25	4.7
All other assets	1,392	1,339	1,594	-12.7
Total liabilities and capital	10,941	10,612	10,062	8.7
Noninterest-bearing deposits	1,704	1,531	1,585	7.5
Interest-bearing deposits	6,635	6,419	6,381	4.0
Other borrowed funds	1,608	1,708	1,232	30.5
Subordinated debt	56	55	34	64.9
All other liabilities	109	99	95	13.7
Equity capital	831	800	735	13.1
Loans and leases 30-89 days past due	70	61	91	-22.3
Noncurrent loans and leases	39	46	55	-27.9
Restructured loans and leases	3	6	1	430.8
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	1,476	1,435	1,226	20.4
Mortgage-backed securities	475	538	531	-10.6
Earning assets	9,998	9,745	8,968	11.5
Long-term assets (5+ years)	1,495	1,565	1,462	2.3
Volatile liabilities	2,236	2,268	1,823	22.7
Foreign office deposits	0	0	0	NA
Unused loan commitments	3,097	3,047	2,369	30.7
Off-balance-sheet derivatives	3,748	5,121	1,284	192.0

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$747	$754	-0.9	$192	$187	2.7
Total interest expense	274	319	-14.2	68	72	-6.7
Net interest income	474	435	8.8	124	114	8.7
Provision for loan losses	27	37	-26.0	6	8	-27.2
Total noninterest income	141	121	16.1	36	32	13.0
Total noninterest expense	367	337	8.9	100	92	8.4
Securities gains (losses)	1	3	-74.2	0	0	41.4
Applicable income taxes	78	65	21.0	20	16	25.6
Extraordinary gains, net	(4)	1	-475.4	0	0	411.8
Net income	139	123	13.4	35	31	16.1
Net charge-offs	18	24	-24.4	4	6	-24.6
Cash dividends	61	67	-9.1	17	23	-24.1
Net operating income	142	119	19.6	35	31	15.3

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Illinois

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Number of institutions reporting	958	967	1,006	-4.8
Total employees (full-time equivalent)	77,390	76,702	75,712	2.2
CONDITION DATA				
Total assets	$211,968	$209,868	$200,876	5.5
Loans secured by real estate	44,659	44,452	42,414	5.3
Commercial & industrial loans	35,294	33,951	35,133	0.4
Loans to individuals	14,936	14,430	13,193	13.4
Farm loans	2,180	2,255	2,139	1.9
Other loans & leases	12,085	12,797	12,469	-3.1
Less: Unearned income	418	442	529	-20.9
Total loans & leases	108,735	107,444	104,820	3.7
Less: Reserve for losses	2,087	2,109	2,049	1.9
Net loans & leases	106,648	105,336	102,771	3.8
Investment securities	51,875	51,136	47,981	8.1
Other real estate owned	549	582	823	-33.3
Goodwill and other intangibles	549	524	468	17.1
All other assets	52,347	52,290	48,834	7.2
Total liabilities and capital	211,968	209,868	200,876	5.5
Noninterest-bearing deposits	34,548	33,316	32,828	5.3
Interest-bearing deposits	126,664	126,942	124,233	2.0
Other borrowed funds	25,491	24,317	20,626	23.6
Subordinated debt	2,284	2,309	2,078	9.9
All other liabilities	5,406	5,727	5,506	-1.8
Equity capital	17,574	17,257	15,605	12.6
Loans and leases 30-89 days past due	1,563	1,532	1,568	-0.3
Noncurrent loans and leases	1,611	2,023	2,389	-32.6
Restructured loans and leases	156	141	190	-17.9
Direct and indirect investments in real estate	3	3	1	207.6
1-4 Family residential mortgages	23,646	23,535	21,868	8.5
Mortgage-backed securities	15,313	15,284	13,783	11.1
Earning assets	186,196	182,494	176,024	5.8
Long-term assets (5+ years)	24,868	24,432	22,000	13.0
Volatile liabilities	60,733	62,133	55,666	9.1
Foreign office deposits	17,798	19,994	16,094	10.6
Unused loan commitments	74,517	71,759	70,143	6.2
Off-balance-sheet derivatives	624,389	645,511	629,567	-0.8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$12,210	$13,162	-7.2	$3,048	$3,157	-3.4
Total interest expense	5,456	6,611	-17.5	1,351	1,440	-6.2
Net interest income	6,754	6,551	3.1	1,697	1,717	-1.1
Provision for loan losses	652	1,374	-52.6	162	230	-30.1
Total noninterest income	3,518	2,825	24.5	832	700	18.8
Total noninterest expense	6,688	6,339	5.5	1,680	1,612	4.2
Securities gains (losses)	216	197	9.4	57	55	2.6
Applicable income taxes	814	405	101.3	189	182	4.6
Extraordinary gains, net	114	(2)	5013.6	5	(5)	215.9
Net income	2,448	1,454	68.5	561	444	26.6
Net charge-offs	621	1,449	-57.2	181	190	-5.6
Cash dividends	1,082	851	27.2	409	295	38.7
Net operating income	2,141	1,298	65.1	503	404	24.9

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Indiana

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	237	240	270	-12.2
Total employees (full-time equivalent)	29,521	29,285	29,659	-0.5
CONDITION DATA				
Total assets	$61,500	$59,614	$59,808	2.8
Loans secured by real estate	19,183	18,445	17,897	7.2
Commercial & industrial loans	7,437	7,426	7,508	-1.0
Loans to individuals	9,222	8,849	8,567	7.7
Farm loans	879	965	897	-2.1
Other loans & leases	1,864	2,016	1,986	-6.1
Less: Unearned income	80	86	114	-29.8
Total loans & leases	38,505	37,616	36,741	4.8
Less: Reserve for losses	743	745	692	7.4
Net loans & leases	37,761	36,871	36,049	4.8
Investment securities	14,800	14,732	14,056	5.3
Other real estate owned	102	129	205	-50.0
Goodwill and other intangibles	205	165	149	37.8
All other assets	8,632	7,717	9,349	-7.7
Total liabilities and capital	61,500	59,614	59,808	2.8
Noninterest-bearing deposits	8,719	8,024	8,365	4.2
Interest-bearing deposits	40,830	39,694	40,848	-0.0
Other borrowed funds	5,532	5,543	4,493	23.1
Subordinated debt	7	8	11	-33.2
All other liabilities	999	972	1,058	-5.5
Equity capital	5,413	5,372	5,035	7.5
Loans and leases 30-89 days past due	575	622	618	-7.1
Noncurrent loans and leases	492	615	556	-11.6
Restructured loans and leases	64	52	62	4.3
Direct and indirect investments in real estate	0	1	1	-59.5
1-4 Family residential mortgages	11,297	10,620	10,249	10.3
Mortgage-backed securities	6,899	6,800	5,857	17.8
Earning assets	55,140	53,596	53,276	3.5
Long-term assets (5+ years)	10,718	9,309	9,461	13.2
Volatile liabilities	8,898	8,934	8,189	8.7
Foreign office deposits	193	32	64	202.0
Unused loan commitments	12,557	10,959	12,019	4.5
Off-balance-sheet derivatives	7,869	8,390	4,330	81.7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$4,139	$4,404	-6.0	$1,060	$1,062	-0.2
Total interest expense	1,635	1,980	-17.4	421	445	-5.4
Net interest income	2,504	2,424	3.3	639	617	3.5
Provision for loan losses	217	333	-35.1	44	61	-27.9
Total noninterest income	701	664	5.6	184	171	7.7
Total noninterest expense	1,966	1,918	2.5	512	498	2.7
Securities gains (losses)	22	25	-14.3	7	6	21.8
Applicable income taxes	368	285	29.2	101	82	22.6
Extraordinary gains, net	5	(1)	480.5	0	(3)	111.0
Net income	680	576	18.0	174	150	16.0
Net charge-offs	162	286	-43.1	47	72	-35.2
Cash dividends	496	269	84.5	238	68	250.2
Net operating income	660	560	17.9	169	149	13.6

Quarterly Banking Profile

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Iowa

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	530	535	542	-2.2
Total employees (full-time equivalent)	16,639	16,570	16,676	-0.2
CONDITION DATA				
Total assets	$38,716	$37,967	$37,356	3 6
Loans secured by real estate	9,290	9,100	8,554	8 6
Commercial & industrial loans	3,528	3,588	3,326	6 1
Loans to individuals	4,396	3,868	3,312	32.7
Farm loans	3,441	3,348	3,226	6.7
Other loans & leases	604	598	655	-7.9
Less. Unearned income	58	59	62	-5.9
Total loans & leases	21,200	20,443	19,011	11 5
Less: Reserve for losses	368	357	333	10.4
Net loans & leases	20,832	20,086	18,678	11.5
Investment securities	13,391	13,486	13,944	-4 0
Other real estate owned	39	42	61	-36 9
Goodwill and other intangibles	41	42	44	-10.0
All other assets	4,414	4,311	4,628	-4 6
Total liabilities and capital	38,716	37,967	37,356	3 6
Noninterest-bearing deposits	4,787	4,420	4,678	2.3
Interest-bearing deposits	27,210	26,983	26,987	0.8
Other borrowed funds	2,647	2,619	1,973	34.2
Subordinated debt	42	49	49	-14 6
All other liabilities	435	420	396	9.7
Equity capital	3,597	3,476	3,273	9.9
Loans and leases 30-89 days past due	196	196	188	4 4
Noncurrent loans and leases	151	185	170	-11.3
Restructured loans and leases	45	41	50	-11.4
Direct and indirect investments in real estate	0	0	0	37.7
1-4 Family residential mortgages	5,085	5,013	4,750	7 6
Mortgage-backed securities	3,633	3,828	4,010	-9 4
Earning assets	35,508	34,794	34,108	4 1
Long-term assets (5+ years)	6,106	5,765	6,108	-0.0
Volatile liabilities	4,128	4,050	3,347	23.3
Foreign office deposits	0	0	0	NA
Unused loan commitments	10,236	9,302	8,718	17.4
Off-balance-sheet derivatives	319	165	86	270.8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93.4
Total interest income	$2,628	$2,807	-6.3	$658	$682	-3.5
Total interest expense	1,098	1,347	-18 5	268	302	-11.3
Net interest income	1,530	1,460	4.9	390	380	2.7
Provision for loan losses	87	100	-12.8	31	28	9.2
Total noninterest income	439	400	9.7	116	107	8.2
Total noninterest expense	1,196	1,151	4 1	319	320	0.0
Securities gains (losses)	44	48	-8.6	21	3	497.0
Applicable income taxes	224	200	12.1	54	44	21.3
Extraordinary gains, net	7	(2)	496.5	2	(3)	157.1
Net income	512	455	12 4	124	96	30.2
Net charge-offs	53	75	-29 7	20	25	-18.5
Cash dividends	274	448	-38.9	89	120	-25.8
Net operating income	475	423	12.4	109	95	14 4

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Kansas

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	490	491	508	-3.5
Total employees (full-time equivalent)	14,334	14,209	14,373	-0 3
CONDITION DATA				
Total assets	$30,333	$29,675	$30,142	0 6
Loans secured by real estate	6,820	6,681	6,505	4 8
Commercial & industrial loans	3,071	2,946	3,089	-0 6
Loans to individuals	2,663	2,588	2,493	6 8
Farm loans	2,252	2,046	2,150	4 8
Other loans & leases	456	467	551	-17 1
Less: Unearned income	8	9	10	-18 2
Total loans & leases	15,254	14,719	14,779	3.2
Less: Reserve for losses	339	347	337	0 8
Net loans & leases	14,915	14,372	14,442	3 3
Investment securities	11,467	11,475	11,229	2 1
Other real estate owned	171	179	277	-38 6
Goodwill and other intangibles	158	161	68	131 0
All other assets	3,623	3,488	4,125	-12 2
Total liabilities and capital	30,333	29,675	30,142	0 6
Noninterest-bearing deposits	3,795	3,505	3,840	-1 2
Interest-bearing deposits	21,684	21,558	22,175	-2.2
Other borrowed funds	1,852	1,646	1,331	39 2
Subordinated debt	2	2	2	-4 2
All other liabilities	208	224	248	-16 3
Equity capital	2,792	2,740	2,545	9.7
Loans and leases 30-89 days past due	165	189	220	-25.1
Noncurrent loans and leases	266	271	217	22.5
Restructured loans and leases	105	109	126	-16 7
Direct and indirect investments in real estate	2	1	1	119 5
1-4 Family residential mortgages	3,042	2,968	2,788	8.5
Mortgage-backed securities	3,119	3,296	3,252	-4 1
Earning assets	27,831	27,125	27,265	2 1
Long-term assets (5+ years)	4,032	4,202	4,042	-0 2
Volatile liabilities	3,660	3,490	3,247	12.7
Foreign office deposits	0	0	0	NA
Unused loan commitments	4,017	3,838	3,464	16 0
Off-balance-sheet derivatives	264	254	7	3516 3

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,958	$2,232	-12 3	$744	$538	38 4
Total interest expense	796	1,031	-22.8	303	228	33 1
Net interest income	1,162	1,201	-3.3	441	310	42 4
Provision for loan losses	61	132	-54 0	15	33	-55 9
Total noninterest income	302	290	4 2	137	76	79 6
Total noninterest expense	975	954	2 3	405	261	55 2
Securities gains (losses)	12	19	-40 3	4	3	38 7
Applicable income taxes	135	133	1 5	48	30	61.1
Extraordinary gains, net	14	5	172 1	9	2	455 2
Net income	318	296	7 4	124	67	85 3
Net charge-offs	56	113	-50 3	25	38	-35 6
Cash dividends	193	187	3 7	111	63	75 0
Net operating income	296	278	6 8	112	63	77.7

Quarterly Banking Profile

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Kentucky

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Number of institutions reporting	309	309	311	-0.6
Total employees (full-time equivalent)	20,245	20,223	20,381	-0.7
CONDITION DATA				
Total assets	$45,539	$44,380	$43,807	4.0
Loans secured by real estate	14,628	14,190	13,353	9.6
Commercial & industrial loans	5,264	5,238	5,151	2.2
Loans to individuals	5,854	5,719	5,400	8.4
Farm loans	471	527	480	-1.8
Other loans & leases	2,101	1,967	1,904	10.3
Less: Unearned income	220	230	270	-18.5
Total loans & leases	28,098	27,411	26,017	8.0
Less: Reserve for losses	489	489	464	5.4
Net loans & leases	27,609	26,922	25,553	8.1
Investment securities	12,248	11,974	11,506	6.4
Other real estate owned	99	111	156	-36.8
Goodwill and other intangibles	161	150	163	-1.3
All other assets	5,423	5,221	6,429	-15.6
Total liabilities and capital	45,539	44,380	43,807	4.0
Noninterest-bearing deposits	6,899	6,454	6,762	2.0
Interest-bearing deposits	28,213	27,643	28,120	0.3
Other borrowed funds	5,657	5,773	4,719	19.9
Subordinated debt	56	56	2	3361.8
All other liabilities	681	510	493	38.2
Equity capital	4,034	3,944	3,711	8.7
Loans and leases 30-89 days past due	357	341	326	9.5
Noncurrent loans and leases	247	310	371	-33.3
Restructured loans and leases	29	30	33	-10.1
Direct and indirect investments in real estate	3	3	3	-21.4
1-4 Family residential mortgages	8,559	8,283	7,696	11.5
Mortgage-backed securities	4,320	4,393	3,869	11.7
Earning assets	41,670	40,316	39,613	5.2
Long-term assets (5+ years)	7,775	7,546	6,664	16.7
Volatile liabilities	8,616	8,778	7,723	11.6
Foreign office deposits	252	359	261	-3.4
Unused loan commitments	5,285	4,860	4,863	8.7
Off-balance-sheet derivatives	2,098	1,944	846	148.1

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$2,953	$3,142	-6.0	$755	$765	-1.3
Total interest expense	1,191	1,472	-19.1	297	325	-8.8
Net interest income	1,762	1,670	5.5	458	439	4.3
Provision for loan losses	137	253	-45.9	31	72	-57.1
Total noninterest income	467	448	4.3	122	117	4.1
Total noninterest expense	1,385	1,347	2.9	366	372	-1.5
Securities gains (losses)	41	62	-32.8	5	12	-61.7
Applicable income taxes	210	152	38.4	53	32	68.2
Extraordinary gains, net	(12)	7	-281.4	0	6	-102.3
Net income	526	435	20.9	134	98	35.9
Net charge-offs	114	206	-44.4	32	76	-57.7
Cash dividends	327	229	43.1	113	67	68.6
Net operating income	509	382	33.3	131	83	57.9

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Louisiana

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	217	218	221	-1 8
Total employees (full-time equivalent)	21,906	21,796	21,383	2.5
CONDITION DATA				
Total assets	$40,062	$39,131	$39,264	2 0
Loans secured by real estate	8,495	8,245	7,973	6 6
Commercial & industrial loans	3,493	3,417	3,624	-3.6
Loans to individuals	4,586	4,366	4,132	11 0
Farm loans	317	494	291	8 9
Other loans & leases	820	698	840	-2 4
Less Unearned income	122	136	181	-32.7
Total loans & leases	17,590	17,083	16,680	5 5
Less: Reserve for losses	564	610	689	-18 2
Net loans & leases	17,026	16,474	15,991	6 5
Investment securities	16,859	16,819	15,916	5 9
Other real estate owned	175	213	367	-52 4
Goodwill and other intangibles	89	80	92	-3 1
All other assets	5,913	5,545	6,897	-14 3
Total liabilities and capital	40,062	39,131	39,264	2.0
Noninterest-bearing deposits	7,161	6,670	6,907	3 7
Interest-bearing deposits	26,878	26,442	27,183	-1 1
Other borrowed funds	2,084	1,967	1,710	21.9
Subordinated debt	1	3	10	-87.0
All other liabilities	430	601	467	-8 0
Equity capital	3,508	3,448	2,986	17 5
Loans and leases 30-89 days past due	238	231	268	-11 4
Noncurrent loans and leases	300	340	488	-38 6
Restructured loans and leases	46	50	66	-30 6
Direct and indirect investments in real estate	0	0	1	-46 9
1-4 Family residential mortgages	4,139	4,031	3,801	9 3
Mortgage-backed securities	6,506	6,576	5,804	12 1
Earning assets	36,173	35,310	35,052	3 2
Long-term assets (5+ years)	6,115	6,407	6,175	-1 0
Volatile liabilities	5,871	5,607	5,402	8.7
Foreign office deposits	138	63	32	333.1
Unused loan commitments	4,799	4,754	4,140	15.9
Off-balance-sheet derivatives	2,081	911	599	247 4

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$2,578	$2,747	-6 2	$841	$669	26 0
Total interest expense	871	1,104	-21.1	276	241	14 5
Net interest income	1,707	1,643	3 9	565	428	32 5
Provision for loan losses	(69)	174	-139 3	(33)	27	-224.8
Total noninterest income	524	496	5 6	188	129	45.2
Total noninterest expense	1,483	1,436	3 3	531	391	35.5
Securities gains (losses)	17	43	-59 8	6	8	-14 6
Applicable income taxes	233	169	38 4	71	44	63 0
Extraordinary gains, net	76	26	189 7	48	10	357 8
Net income	677	429	57 8	240	113	112 3
Net charge-offs	56	176	-68.2	23	47	-51 7
Cash dividends	192	96	100 9	143	50	185.6
Net operating income	589	368	60.1	187	98	92 1

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Maine

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Number of institutions reporting	20	20	21	-4.8
Total employees (full-time equivalent)	3,998	4,105	4,225	-5.4
CONDITION DATA				
Total assets	$8,699	$8,812	$8,781	-0.9
Loans secured by real estate	3,045	3,063	3,141	-3.1
Commercial & industrial loans	1,360	1,363	1,223	11.2
Loans to individuals	1,254	1,170	1,133	10.7
Farm loans	35	33	31	13.7
Other loans & leases	173	194	218	-20.9
Less: Unearned income	3	4	5	-31.4
Total loans & leases	5,864	5,818	5,741	2.1
Less: Reserve for losses	159	164	164	-3.4
Net loans & leases	5,705	5,654	5,577	2.3
Investment securities	2,021	2,052	1,951	1.3
Other real estate owned	24	29	39	-39.1
Goodwill and other intangibles	5	6	6	-25.9
All other assets	945	1,071	1,207	-18.8
Total liabilities and capital	8,699	8,812	8,781	-0.9
Noninterest-bearing deposits	1,081	1,025	1,095	-1.3
Interest-bearing deposits	5,758	5,728	6,038	-4.7
Other borrowed funds	1,097	1,307	961	14.1
Subordinated debt	4	4	4	-7.7
All other liabilities	57	64	48	20.4
Equity capital	702	684	634	10.7
Loans and leases 30-89 days past due	88	100	166	-47.3
Noncurrent loans and leases	85	99	138	-38.8
Restructured loans and leases	9	10	16	-45.5
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	1,710	1,739	1,698	0.9
Mortgage-backed securities	1,140	1,172	1,187	-4.0
Earning assets	7,812	7,821	7,712	1.3
Long-term assets (5+ years)	2,255	2,291	2,503	-10.2
Volatile liabilities	1,421	1,659	1,353	5.0
Foreign office deposits	0	0	0	NA
Unused loan commitments	1,937	1,750	1,754	10.4
Off-balance-sheet derivatives	472	326	266	77.6

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$623	$676	-7.8	$153	$164	-6.9
Total interest expense	235	311	-24.4	55	68	-18.4
Net interest income	388	365	6.3	98	96	1.2
Provision for loan losses	27	74	-63.9	3	8	-62.0
Total noninterest income	117	124	-5.3	32	32	0.4
Total noninterest expense	355	366	-3.0	89	98	-8.9
Securities gains (losses)	9	19	-54.6	1	14	-96.0
Applicable income taxes	42	20	111.9	13	12	9.1
Extraordinary gains, net	(1)	0	-2529.6	(1)	0	-2170.2
Net income	89	48	84.5	24	25	-1.6
Net charge-offs	30	85	-64.9	9	26	-67.3
Cash dividends	21	6	258.8	9	4	130.5
Net operating income	84	35	144.2	25	15	62.9

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Maryland

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	94	96	96	-2.1
Total employees (full-time equivalent)	22,968	23,376	24,558	-6 5
CONDITION DATA				
Total assets	$51,992	$51,662	$53,083	-2 1
Loans secured by real estate	16,409	16,649	16,494	-0 5
Commercial & industrial loans	5,488	5,456	5,764	-4 8
Loans to individuals	5,350	5,437	7,018	-23 8
Farm loans	50	52	49	2 8
Other loans & leases	2,234	2,255	2,153	3 7
Less Unearned income	61	72	183	-66 7
Total loans & leases	29,470	29,778	31,296	-5 8
Less Reserve for losses	913	920	1,070	-14 7
Net loans & leases	28,556	28,858	30,225	-5 5
Investment securities	13,742	14,895	14,147	-2 9
Other real estate owned	326	382	531	-38.5
Goodwill and other intangibles	313	99	74	320.5
All other assets	9,055	7,427	8,106	11.7
Total liabilities and capital	51,992	51,662	53,083	-2 1
Noninterest-bearing deposits	8,662	8,295	8,144	6 4
Interest-bearing deposits	32,069	32,597	34,568	-7 2
Other borrowed funds	6,176	6,067	5,725	7 9
Subordinated debt	86	86	156	-44 9
All other liabilities	522	485	566	-7.7
Equity capital	4,478	4,131	3,925	14 1
Loans and leases 30-89 days past due	496	373	597	-17 0
Noncurrent loans and leases	632	734	1,087	-41 9
Restructured loans and leases	89	124	209	-57 2
Direct and indirect investments in real estate	1	1	0	NA
1-4 Family residential mortgages	8,179	8,368	7,979	4.2
Mortgage-backed securities	5,927	6,894	7,165	-17.3
Earning assets	46,990	46,726	47,547	-1.2
Long-term assets (5+ years)	9,374	10,262	11,342	-17 4
Volatile liabilities	8,726	9,146	10,245	-14 8
Foreign office deposits	663	727	501	32 4
Unused loan commitments	10,591	10,045	17,105	-38 1
Off-balance-sheet derivatives	9,312	10,871	7,475	24 6

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$2,752	$4,185	-34.3	$851	$991	-14 1
Total interest expense	1,074	1,956	-45.1	323	418	-22 6
Net interest income	1,678	2,229	-24.7	527	573	-8 0
Provision for loan losses	116	547	-78.8	32	119	-73 3
Total noninterest income	547	763	-28.3	191	190	0.2
Total noninterest expense	1,542	2,076	-25.7	519	574	-9 7
Securities gains (losses)	38	128	-70.3	7	18	-60 4
Applicable income taxes	201	162	24 1	53	32	68 3
Extraordinary gains, net	(3)	2	-245.2	0	1	-143.9
Net income	401	337	19 1	121	56	114.1
Net charge-offs	137	706	-80.6	40	262	-84 6
Cash dividends	126	179	-29.7	32	51	-36 6
Net operating income	375	239	56.6	115	43	166 4

Quarterly Banking Profile
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Massachusetts

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	61	62	61	0.0
Total employees (full-time equivalent)	41,749	41,732	41,741	0 0
CONDITION DATA				
Total assets	$97,718	$96,151	$94,459	3.5
Loans secured by real estate	23,497	23,793	23,684	-0 8
Commercial & industrial loans	21,191	20,700	19,436	9 0
Loans to individuals	4,546	4,288	3,880	17.2
Farm loans	63	60	73	-13.7
Other loans & leases	6,465	5,774	5,020	28 8
Less: Unearned income	81	59	57	42.0
Total loans & leases	55,681	54,555	52,036	7 0
Less Reserve for losses	1,452	1,514	1,728	-16 0
Net loans & leases	54,229	53,041	50,307	7.8
Investment securities	19,241	18,517	17,709	8.7
Other real estate owned	331	413	689	-52.0
Goodwill and other intangibles	635	618	523	21.3
All other assets	23,283	23,562	25,230	-7.7
Total liabilities and capital	97,718	96,151	94,459	3.5
Noninterest-bearing deposits	18,010	16,657	15,940	13 0
Interest-bearing deposits	51,983	50,950	53,092	-2 1
Other borrowed funds	17,763	19,024	15,951	11 4
Subordinated debt	715	718	720	-0.8
All other liabilities	2,307	2,297	2,523	-8 6
Equity capital	6,940	6,504	6,232	11 4
Loans and leases 30-89 days past due	741	821	831	-10 8
Noncurrent loans and leases	1,037	1,205	1,545	-32.8
Restructured loans and leases	348	355	567	-38.6
Direct and indirect investments in real estate	1	0	0	4.2
1-4 Family residential mortgages	14,798	14,993	14,313	3.0
Mortgage-backed securities	6,872	7,009	7,366	-6 7
Earning assets	85,328	84,656	82,591	3.3
Long-term assets (5+ years)	9,852	10,227	11,318	-13 0
Volatile liabilities	34,780	34,919	31,804	9.4
Foreign office deposits	13,526	12,331	11,071	22.2
Unused loan commitments	28,910	27,524	24,401	18 5
Off-balance-sheet derivatives	128,282	126,541	87,500	46 6

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$9,575	$8,359	14 6	$2,960	$2,064	43 4
Total interest expense	6,300	5,278	19.4	2,061	1,248	65.2
Net interest income	3,275	3,081	6.3	899	816	10.1
Provision for loan losses	187	428	-56.5	34	84	-60.7
Total noninterest income	2,334	2,283	2.2	602	597	0.8
Total noninterest expense	4,294	4,120	4.2	1,074	1,094	-2.1
Securities gains (losses)	107	242	-55.6	19	61	-69 1
Applicable income taxes	446	389	15.0	139	110	27.3
Extraordinary gains, net	(72)	105	-167.7	(3)	36	-108 3
Net income	717	774	-7 1	270	221	23.2
Net charge-offs	461	605	-23.9	95	151	-37.5
Cash dividends	500	96	419 6	48	64	-25.0
Net operating income	713	511	40.2	257	148	76 9

Quarterly Banking Profile
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Michigan

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	208	214	219	-5 0
Total employees (full-time equivalent)	42,815	2 514	44,351	-3 5
CONDITION DATA				
Total assets	$105,957	$103,701	$100,288	5 7
Loans secured by real estate	28,907	28,608	28,470	1 5
Commercial & industrial loans	20,162	19,824	18 665	8 0
Loans to individuals	12,132	11,816	11,153	8 8
Farm loans	389	411	421	-7 7
Other loans & leases	4,585	4,532	4,698	-2 4
Less Unearned income	33	33	47	-29 9
Total loans & leases	66,141	65,158	63,359	4 4
Less Reserve for losses	1,089	1,091	1,036	5 0
Net loans & leases	65,053	64,067	62,323	4 4
Investment securities	25,876	25,657	23,910	8 2
Other real estate owned	236	274	288	-18 0
Goodwill and other intangibles	254	263	373	-31 9
All other assets	14,538	13,440	13,394	8 5
Total liabilities and capital	105,957	103,701	100,288	5 7
Noninterest-bearing deposits	15,851	14,781	14,689	7 9
Interest-bearing deposits	65,708	65,371	66,018	-0 5
Other borrowed funds	14,274	13,700	10,346	38 0
Subordinated debt	885	740	539	64 2
All other liabilities	1,493	1,459	1 420	5 1
Equity capital	7,746	7,650	7,275	6 5
Loans and leases 30-89 days past due	598	659	828	-27 7
Noncurrent loans and leases	823	866	913	-9 9
Restructured loans and leases	37	127	130	-71 5
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	15,502	15,354	15,475	0 2
Mortgage-backed securities	14,345	14,136	12,716	12 8
Earning assets	96,884	94,618	90,945	6 5
Long-term assets (5+ years)	18,172	17,819	16 282	11 6
Volatile liabilities	24 099	23,471	19,578	23 1
Foreign office deposits	4,028	3,522	3,237	24 4
Unused loan commitments	34,643	32,502	28,301	22 4
Off-balance-sheet derivatives	16,258	16,342	11,719	38 7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$6,807	$7,287	-6 6	$1,697	$1,774	-4 3
Total interest expense	2,709	3,277	-17 3	663	737	-10 1
Net interest income	4,098	4,010	2 2	1,034	1,037	-0 3
Provision for loan losses	307	431	-28 7	61	115	-46 7
Total noninterest income	1,501	1,368	9 7	391	361	8 2
Total noninterest expense	3,595	3,513	2 3	921	899	2 4
Securities gains (losses)	30	45	-34 5	6	15	-60 0
Applicable income taxes	511	412	24 1	135	112	21 1
Extraordinary gains, net	6	(48)	112.3	1	(48)	101 4
Net income	1,221	1,020	19 7	314	239	31 4
Net charge-offs	255	336	-24 0	61	103	-41 1
Cash dividends	800	539	48 5	274	129	111 2
Net operating income	1,193	1,036	15 2	308	276	11 4

Quarterly Banking Profile

December 31, 1993

Minnesota

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	573	582	593	-3.4
Total employees (full-time equivalent)	24,305	24,269	23,711	2.5
CONDITION DATA				
Total assets	$62,292	$62,384	$59,838	4.1
Loans secured by real estate	18,473	18,385	17,418	6.1
Commercial & industrial loans	9,105	8,645	8,407	8.3
Loans to individuals	5,455	4,598	4,530	20.4
Farm loans	2,062	2,198	2,041	1.0
Other loans & leases	4,443	4,871	4,144	7.2
Less: Unearned income	56	64	92	-39.2
Total loans & leases	39,482	38,634	36,448	8.3
Less: Reserve for losses	725	738	716	1.2
Net loans & leases	38,757	37,896	35,732	8.5
Investment securities	13,329	14,211	14,497	-8.1
Other real estate owned	105	138	180	-41.6
Goodwill and other intangibles	393	278	291	34.9
All other assets	9,708	9,862	9,138	6.2
Total liabilities and capital	62,292	62,384	59,838	4.1
Noninterest-bearing deposits	13,262	12,049	10,759	23.3
Interest-bearing deposits	34,651	34,361	35,482	-2.3
Other borrowed funds	7,603	9,209	7,383	3.0
Subordinated debt	401	428	333	20.4
All other liabilities	1,148	1,203	1,070	7.4
Equity capital	5,227	5,134	4,812	8.6
Loans and leases 30-89 days past due	393	342	493	-19.0
Noncurrent loans and leases	335	413	475	-29.4
Restructured loans and leases	34	39	107	-68.8
Direct and indirect investments in real estate	1	1	0	49.2
1-4 Family residential mortgages	13,157	13,136	12,329	6.6
Mortgage-backed securities	5,661	6,633	6,725	-15.8
Earning assets	56,422	56,370	53,601	5.3
Long-term assets (5+ years)	7,935	8,649	7,753	2.2
Volatile liabilities	11,008	12,868	10,399	5.9
Foreign office deposits	974	1,152	320	203.9
Unused loan commitments	15,824	12,555	11,228	40.9
Off-balance-sheet derivatives	19,938	12,340	11,088	79.8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$3,888	$3,957	-1.7	$996	$980	1.7
Total interest expense	1,420	1,670	-15.0	357	372	-4.0
Net interest income	2,468	2,287	8.0	640	608	5.2
Provision for loan losses	131	227	-42.3	19	51	-63.4
Total noninterest income	1,164	960	21.2	318	254	25.1
Total noninterest expense	2,250	2,057	9.4	588	561	4.7
Securities gains (losses)	42	70	-39.5	5	16	-65.7
Applicable income taxes	457	351	30.5	121	137	-11.5
Extraordinary gains, net	20	84	-75.7	3	82	-96.8
Net income	857	766	11.8	237	210	12.8
Net charge-offs	119	210	-43.4	26	60	-56.9
Cash dividends	551	302	82.5	228	108	110.9
Net operating income	808	634	27.4	231	120	93.0

Quarterly Banking Profile

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Mississippi

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	118	119	121	-2 5
Total employees (full-time equivalent)	13,413	13,328	12,796	4.8
CONDITION DATA				
Total assets	$24,420	$24,237	$23,094	5.7
Loans secured by real estate	6,855	6,694	5,806	18 1
Commercial & industrial loans	2,268	2,256	2,366	-3 3
Loans to individuals	3,155	3,065	2,795	12 9
Farm loans	459	548	406	13 0
Other loans & leases	538	529	685	-21 4
Less: Unearned income	130	132	131	-1 0
Total loans & leases	13,165	12,961	11,927	10 4
Less: Reserve for losses	266	261	236	12.7
Net loans & leases	12,899	12,699	11,691	10 3
Investment securities	8,587	8,576	8,006	7.3
Other real estate owned	43	60	83	-48 4
Goodwill and other intangibles	73	71	59	22 8
All other assets	2,818	2,831	3,255	-13 4
Total liabilities and capital	24,420	24,237	23,094	5.7
Noninterest-bearing deposits	3,566	3,380	3,289	8 4
Interest-bearing deposits	16,928	16,997	16,411	3 2
Other borrowed funds	1,616	1,561	1,305	23 9
Subordinated debt	2	2	2	-4 2
All other liabilities	176	185	184	-4 1
Equity capital	2,131	2,112	1,903	12 0
Loans and leases 30-89 days past due	220	209	231	-4 7
Noncurrent loans and leases	131	131	137	-4 0
Restructured loans and leases	11	17	20	-44 5
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	3,586	3,499	3,139	14 9
Mortgage-backed securities	2,933	3,013	2,595	13 1
Earning assets	22,223	22,024	20,839	6 7
Long-term assets (5+ years)	4,600	4,556	4,193	9 7
Volatile liabilities	3,762	3,774	3,496	7 6
Foreign office deposits	0	0	0	NA
Unused loan commitments	2,392	2,294	1,959	22 1
Off-balance-sheet derivatives	1,027	1,084	444	131 2

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,634	$1,688	-3.2	$410	$412	-0 5
Total interest expense	627	744	-15.7	154	165	-6 6
Net interest income	1,007	944	6 6	257	248	3 5
Provision for loan losses	62	98	-37 0	17	27	-39 2
Total noninterest income	256	236	8 8	66	61	9 2
Total noninterest expense	804	753	6.7	216	202	6 9
Securities gains (losses)	6	7	-21.0	0	1	-65 8
Applicable income taxes	113	86	31.3	27	22	23 4
Extraordinary gains, net	11	2	548 0	2	0	400 0
Net income	300	251	19 7	65	59	10 7
Net charge-offs	36	83	-56 5	12	31	-61 5
Cash dividends	108	92	18 2	47	41	14 1
Net operating income	285	244	17 1	63	57	9 9

Quarterly Banking Profile
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Missouri

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	490	494	510	-3 9
Total employees (full-time equivalent)	31,778	31,587	31,982	-0 6
CONDITION DATA				
Total assets	$68,549	$66,832	$67,621	1.4
Loans secured by real estate	19,696	19,646	19,166	2.7
Commercial & industrial loans	8,484	8,430	8,138	4.3
Loans to individuals	5,742	5,579	5,232	9 7
Farm loans	1,265	1,303	1,202	5 2
Other loans & leases	2,213	2,031	2,228	-0.1
Less: Unearned income	49	53	67	-27 1
Total loans & leases	37,352	36,936	35,899	4 1
Less Reserve for losses	712	716	750	-5.1
Net loans & leases	36,640	36,220	35,149	4 2
Investment securities	20,847	20,072	19,702	5 8
Other real estate owned	263	296	373	-29.5
Goodwill and other intangibles	96	100	72	32.7
All other assets	10,704	10,143	12,324	-13 2
Total liabilities and capital	68,549	66,832	67,621	1.4
Noninterest-bearing deposits	11,419	10,216	10,484	8 9
Interest-bearing deposits	44,272	43,756	45,441	-2 6
Other borrowed funds	6,668	6,783	5,976	11 6
Subordinated debt	36	36	36	0 0
All other liabilities	604	602	565	6 9
Equity capital	5,550	5,439	5,119	8 4
Loans and leases 30-89 days past due	401	434	540	-25.8
Noncurrent loans and leases	663	750	572	15.8
Restructured loans and leases	72	68	132	-45 4
Direct and indirect investments in real estate	5	3	4	27.7
1-4 Family residential mortgages	9,612	9,624	9,500	1 6
Mortgage-backed securities	6,248	5,742	5,239	19 3
Earning assets	61,788	60,334	59,941	3 1
Long-term assets (5+ years)	7,634	6,654	7,280	4 9
Volatile liabilities	9,491	9,764	9,285	2 2
Foreign office deposits	68	151	161	-57 9
Unused loan commitments	11,041	10,677	9,921	11.3
Off-balance-sheet derivatives	4,208	4,283	2,807	49 9

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$4,176	$4,392	-4.9	$1,043	$1,074	-2 9
Total interest expense	1,676	2,040	-17.8	411	460	-10.6
Net interest income	2,500	2,352	6.3	632	614	2 9
Provision for loan losses	169	245	-31.1	31	70	-55.3
Total noninterest income	937	810	15.6	262	217	20.9
Total noninterest expense	2,155	2,016	6.9	578	536	7 8
Securities gains (losses)	16	47	-66.0	3	8	-65.2
Applicable income taxes	365	296	23.2	88	67	31 4
Extraordinary gains, net	0	4	-90.1	2	4	-51 4
Net income	765	657	16.5	202	170	18.7
Net charge-offs	143	186	-23.0	37	69	-46 8
Cash dividends	451	349	29.3	164	104	57.3
Net operating income	754	620	21.5	198	160	23 3

Quarterly Banking Profile
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Montana

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	117	117	120	-2 5
Total employees (full-time equivalent)	3,741	3,724	3,721	0 5
CONDITION DATA				
Total assets	$7,931	$7,659	$7,722	2 7
Loans secured by real estate	1,681	1,639	1,300	29 3
Commercial & industrial loans	930	910	903	3 0
Loans to individuals	1,103	1,083	1,101	0 1
Farm loans	572	656	529	8 3
Other loans & leases	86	71	80	6 9
Less: Unearned income	2	3	5	-55 7
Total loans & leases	4,370	4,357	3,909	11 8
Less: Reserve for losses	79	79	78	1 9
Net loans & leases	4,291	4,277	3,831	12 0
Investment securities	2,355	2,262	2,405	-2.1
Other real estate owned	9	11	14	-38 3
Goodwill and other intangibles	31	32	31	-0.2
All other assets	1,246	1,077	1,439	-13 5
Total liabilities and capital	7,931	7,659	7,722	2 7
Noninterest-bearing deposits	1,334	1,226	1,215	9 8
Interest-bearing deposits	5,497	5,341	5,498	-0 0
Other borrowed funds	299	296	229	30 5
Subordinated debt	17	17	17	-0.2
All other liabilities	106	93	103	2.3
Equity capital	678	686	660	2 8
Loans and leases 30-89 days past due	69	59	81	-14 3
Noncurrent loans and leases	39	46	50	-23 5
Restructured loans and leases	10	11	17	-44 3
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	951	926	660	43 5
Mortgage-backed securities	998	963	862	15.7
Earning assets	7,160	6,924	6,965	2.8
Long-term assets (5+ years)	1,209	1,115	1,091	10 8
Volatile liabilities	668	650	598	11.7
Foreign office deposits	0	0	0	NA
Unused loan commitments	1,441	1,411	1,257	14 6
Off-balance-sheet derivatives	145	145	177	-18 1

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$552	$583	-5 4	$137	$142	-3 1
Total interest expense	184	231	-20 5	44	51	-13 4
Net interest income	368	352	4 6	93	90	2 8
Provision for loan losses	17	26	-34.1	4	5	-19 6
Total noninterest income	89	87	2.2	22	23	-4 5
Total noninterest expense	282	269	4 9	75	73	2 6
Securities gains (losses)	4	4	-7 2	0	0	251 4
Applicable income taxes	60	53	13 8	14	14	5 2
Extraordinary gains, net	0	2	-81.9	0	2	-72.7
Net income	102	98	4.5	23	24	-4 4
Net charge-offs	16	24	-31.6	4	7	-36 7
Cash dividends	101	61	67.1	40	18	122.1
Net operating income	99	93	6 9	23	23	-0.1

Quarterly Banking Profile

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Nebraska

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	361	361	374	-3 5
Total employees (full-time equivalent)	12,790	12,616	12,375	3 4
CONDITION DATA				
Total assets	$24,116	$23,159	$22,730	6 1
Loans secured by real estate	5,032	4,707	3,960	27.1
Commercial & industrial loans	2,294	2,243	2,137	7 3
Loans to individuals	3,829	3,608	3,634	5 4
Farm loans	3,014	2,868	2,842	6 1
Other loans & leases	460	441	421	9 2
Less. Unearned income	5	6	6	-13 5
Total loans & leases	14,624	13,860	12,987	12 6
Less: Reserve for losses	259	255	247	4 8
Net loans & leases	14,365	13,605	12,740	12 8
Investment securities	6,489	6,486	6,523	-0.5
Other real estate owned	15	17	21	-28.7
Goodwill and other intangibles	50	49	49	1 8
All other assets	3,196	3,002	3,396	-5 9
Total liabilities and capital	24,116	23,159	22,730	6.1
Noninterest-bearing deposits	3,221	2,781	3,176	1 4
Interest-bearing deposits	17,640	16,965	16,440	7 3
Other borrowed funds	953	1,135	954	-0 1
Subordinated debt	31	31	31	-0 0
All other liabilities	207	210	211	-1.9
Equity capital	2,065	2,037	1,920	7.6
Loans and leases 30-89 days past due	152	133	159	-4 0
Noncurrent loans and leases	113	131	132	-14 9
Restructured loans and leases	33	36	38	-12.8
Direct and indirect investments in real estate	0	0	0	-100 0
1-4 Family residential mortgages	2,470	2,187	1,661	45 1
Mortgage-backed securities	1,538	1,547	1,626	-5 4
Earning assets	21,938	21,087	20,402	7 5
Long-term assets (5+ years)	2,719	2,644	2,467	10 2
Volatile liabilities	3,169	3,047	2,354	34 6
Foreign office deposits	0	0	0	NA
Unused loan commitments	9,660	9,365	8,186	18.0
Off-balance-sheet derivatives	250	125	131	90.7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,737	$1,765	-1.6	$449	$441	1 8
Total interest expense	678	777	-12.8	169	181	-6.5
Net interest income	1,059	988	7.2	280	260	7.6
Provision for loan losses	84	102	-17.2	23	27	-13.8
Total noninterest income	411	388	5.9	113	105	7 5
Total noninterest expense	894	848	5.5	252	237	6.3
Securities gains (losses)	10	17	-43 9	2	6	-69 1
Applicable income taxes	155	138	12.8	36	34	3.5
Extraordinary gains, net	3	(3)	197 7	1	(3)	129.9
Net income	349	303	15 0	85	70	22 0
Net charge-offs	72	85	-15 2	23	27	-12 4
Cash dividends	210	154	36 3	74	58	27 2
Net operating income	339	294	15.2	83	69	20 1

Quarterly Banking Profile

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Nevada

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	21	20	18	16.7
Total employees (full-time equivalent)	7,891	6,508	6,076	29 9
CONDITION DATA				
Total assets	$17,999	$16,913	$14,397	25 0
Loans secured by real estate	2,526	2,394	2,573	-1 8
Commercial & industrial loans	779	773	820	-5 1
Loans to individuals	6,758	6,231	4,316	56 6
Farm loans	14	15	14	-4 5
Other loans & leases	398	270	146	171.5
Less: Unearned income	4	4	3	59 6
Total loans & leases	10,470	9,680	7,868	33 1
Less: Reserve for losses	486	487	362	34.3
Net loans & leases	9,985	9,192	7,506	33 0
Investment securities	4,311	4,366	3,559	21 1
Other real estate owned	9	26	49	-82 1
Goodwill and other intangibles	587	609	293	100.3
All other assets	3,107	2,721	2,990	3.9
Total liabilities and capital	17,999	16,913	14,397	25 0
Noninterest-bearing deposits	3,172	2,794	2,615	21.3
Interest-bearing deposits	7,074	7,158	7 489	-5.5
Other borrowed funds	4,256	3,448	1,755	142.6
Subordinated debt	10	10	10	0 0
All other liabilities	1,176	1,382	995	18.2
Equity capital	2,311	2,121	1,534	50.7
Loans and leases 30-89 days past due	260	284	246	5 6
Noncurrent loans and leases	239	296	297	-19.5
Restructured loans and leases	9	0	1	1242.3
Direct and indirect investments in real estate	1	1	3	-58 6
1-4 Family residential mortgages	994	916	954	2 4
Mortgage-backed securities	2,031	2,053	1,436	41.5
Earning assets	14,727	14,003	11,632	26.6
Long-term assets (5+ years)	2,218	2,144	1,627	36 3
Volatile liabilities	5,037	4,232	2,592	94 3
Foreign office deposits	0	0	0	NA
Unused loan commitments	16,596	15,129	1,789	828 0
Off-balance-sheet derivatives	18,845	21,370	19,330	-2 5

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,484	$1,373	8.0	$383	$309	23.9
Total interest expense	348	276	26 0	87	56	55.5
Net interest income	1,136	1,097	3.5	296	253	16.9
Provision for loan losses	356	253	40.5	69	46	52.7
Total noninterest income	1,280	647	97 9	378	233	61 9
Total noninterest expense	1,193	899	32.6	294	231	27 2
Securities gains (losses)	2	3	-29 1	1	0	397.2
Applicable income taxes	296	205	44 4	109	74	47.1
Extraordinary gains, net	(3)	0	-1541.2	2	0	9583.3
Net income	569	389	46.4	204	136	49 8
Net charge-offs	298	250	18.9	72	49	45 1
Cash dividends	471	203	131.9	82	200	-59 3
Net operating income	571	387	47.7	201	136	48 3

Quarterly Banking Profile

December 31, 1993

New Hampshire

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	26	27	28	-7.1
Total employees (full-time equivalent)	2,389	2,455	2,609	-8.4
CONDITION DATA				
Total assets	$7,366	$7,275	$7,281	1.2
Loans secured by real estate	2,488	2,558	2,565	-3.0
Commercial & industrial loans	440	461	564	-22.1
Loans to individuals	1,893	1,696	1,802	5.0
Farm loans	0	0	0	-35.9
Other loans & leases	66	59	86	-23.4
Less: Unearned income	10	10	12	-14.6
Total loans & leases	4,876	4,764	5,006	-2.6
Less: Reserve for losses	141	153	167	-15.4
Net loans & leases	4,736	4,611	4,839	-2.1
Investment securities	1,741	1,761	1,510	15.3
Other real estate owned	54	64	115	-52.9
Goodwill and other intangibles	7	9	11	-34.7
All other assets	829	830	806	2.8
Total liabilities and capital	7,366	7,275	7,281	1.2
Noninterest-bearing deposits	672	677	645	4.2
Interest-bearing deposits	5,171	5,093	5,362	-3.6
Other borrowed funds	748	708	570	31.3
Subordinated debt	15	15	15	0.0
All other liabilities	121	137	113	6.5
Equity capital	640	645	575	11.2
Loans and leases 30-89 days past due	95	108	117	-18.7
Noncurrent loans and leases	68	88	88	-23.3
Restructured loans and leases	13	9	16	-14.7
Direct and indirect investments in real estate	3	3	3	8.4
1-4 Family residential mortgages	1,558	1,573	1,619	-2.5
Mortgage-backed securities	687	742	729	-5.8
Earning assets	6,753	6,663	6,555	3.0
Long-term assets (5+ years)	864	988	918	-5.9
Volatile liabilities	1,711	1,520	1,455	17.6
Foreign office deposits	0	0	0	NA
Unused loan commitments	5,409	5,001	4,513	19.8
Off-balance-sheet derivatives	1,185	1,607	1,704	-30.5

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$724	$776	-6.8	$180	$182	-1.2
Total interest expense	230	317	-27.4	54	67	-19.9
Net interest income	493	459	7.4	126	115	9.7
Provision for loan losses	82	156	-47.6	15	50	-70.5
Total noninterest income	260	242	7.4	40	92	-56.3
Total noninterest expense	409	394	3.6	106	109	-2.7
Securities gains (losses)	10	17	-37.3	1	10	-91.3
Applicable income taxes	99	62	59.2	16	15	6.1
Extraordinary gains, net	2	1	60.4	2	1	64.7
Net income	176	107	65.2	32	44	-26.5
Net charge-offs	92	128	-27.9	18	34	-46.7
Cash dividends	118	29	308.9	42	1	4325.5
Net operating income	167	93	79.0	29	35	-17.5

Quarterly Banking Profile
December 31, 1993

New Jersey

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	99	101	105	-5 7
Total employees (full-time equivalent)	34,911	34,735	36,531	-4 4
CONDITION DATA				
Total assets	$100,286	$98,727	$99,402	0 9
Loans secured by real estate	33,988	33,550	33,926	0 2
Commercial & industrial loans	12,100	11,881	12,472	-3 0
Loans to individuals	6,120	6,091	5,937	3 1
Farm loans	49	66	40	23 5
Other loans & leases	4,037	3,996	4,594	-12 1
Less: Unearned income	205	214	262	-21 5
Total loans & leases	56,089	55,370	56,707	-1 1
Less Reserve for losses	1,679	1,848	2,104	-20 2
Net loans & leases	54,410	53,522	54,603	-0 4
Investment securities	28,882	28,359	24,978	15 6
Other real estate owned	768	949	1,380	-44 4
Goodwill and other intangibles	418	411	407	2 6
All other assets	15,809	15,485	18,034	-12 3
Total liabilities and capital	100,286	98,727	99,402	0 9
Noninterest-bearing deposits	18,216	17,394	18,037	1 0
Interest-bearing deposits	66,209	66,249	67,806	-2 4
Other borrowed funds	6,638	6,190	5,483	21 1
Subordinated debt	435	435	390	11 5
All other liabilities	1,285	1,233	1,080	18 9
Equity capital	7,504	7,226	6,606	13 6
Loans and leases 30-89 days past due	1,467	1,579	1,831	-19 9
Noncurrent loans and leases	1,946	2,375	2,869	-32 2
Restructured loans and leases	310	273	330	-6 1
Direct and indirect investments in real estate	9	9	4	134 2
1-4 Family residential mortgages	19,189	18,827	18,647	2 7
Mortgage-backed securities	12,210	12,194	10,624	14 9
Earning assets	90,900	88,735	88,210	3 1
Long-term assets (5+ years)	19,488	18,928	18,189	7 1
Volatile liabilities	11,522	11,251	10,953	5 2
Foreign office deposits	36	36	51	-30 1
Unused loan commitments	15,460	14,626	14,821	4 3
Off-balance-sheet derivatives	14 008	13,049	10,952	27 9

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$6,070	$6,476	-6 3	$1,496	$1,570	-4 7
Total interest expense	2,157	2,885	-25 3	505	636	-20 7
Net interest income	3,913	3,590	9 0	991	934	6.1
Provision for loan losses	447	690	-35 2	102	172	-40 8
Total noninterest income	1,154	1,103	4 6	284	281	1 3
Total noninterest expense	3,520	3,373	4 4	884	887	-0 4
Securities gains (losses)	112	153	-27 0	18	31	-40 9
Applicable income taxes	215	235	-8 4	17	62	-72.7
Extraordinary gains, net	28	11	155 8	0	(3)	108 3
Net income	1,024	559	83.0	292	122	138 8
Net charge-offs	876	869	0 8	272	289	-5 8
Cash dividends	306	230	33 1	105	79	33 8
Net operating income	906	422	114 9	277	97	184 6

Quarterly Banking Profile

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New Mexico

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	81	81	84	-3.6
Total employees (full-time equivalent)	7,780	7,775	7,839	-0.8
CONDITION DATA				
Total assets	$12,788	$12,529	$12,420	3.0
Loans secured by real estate	3,584	3,575	3,581	0.1
Commercial & industrial loans	1,045	1,071	1,066	-2.0
Loans to individuals	1,321	1,277	1,264	4.5
Farm loans	231	247	218	5.7
Other loans & leases	191	172	190	0.6
Less: Unearned income	54	62	68	-20.4
Total loans & leases	6,316	6,280	6,251	1.1
Less: Reserve for losses	156	159	156	0.1
Net loans & leases	6,160	6,121	6,094	1.1
Investment securities	4,284	4,213	4,056	5.6
Other real estate owned	57	82	131	-56.5
Goodwill and other intangibles	23	24	24	-5.4
All other assets	2,264	2,089	2,115	7.1
Total liabilities and capital	12,788	12,529	12,420	3.0
Noninterest-bearing deposits	2,120	2,057	1,872	13.2
Interest-bearing deposits	9,033	8,891	9,058	-0.3
Other borrowed funds	557	507	464	19.9
Subordinated debt	0	0	1	-100.0
All other liabilities	79	76	75	5.6
Equity capital	1,000	998	951	5.2
Loans and leases 30-89 days past due	99	98	113	-12.3
Noncurrent loans and leases	102	127	130	-21.8
Restructured loans and leases	13	14	23	-45.2
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	1,859	1,892	1,978	-4.8
Mortgage-backed securities	1,822	1,854	1,697	7.3
Earning assets	11,411	11,257	11,092	2.9
Long-term assets (5+ years)	1,789	1,472	1,250	43.1
Volatile liabilities	1,582	1,507	1,551	2.0
Foreign office deposits	0	0	0	NA
Unused loan commitments	1,420	1,423	1,350	5.2
Off-balance-sheet derivatives	165	166	227	-27.3

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$848	$920	-7.8	$278	$220	26.3
Total interest expense	299	396	-24.5	96	85	11.8
Net interest income	550	525	4.8	183	135	35.5
Provision for loan losses	25	74	-66.2	9	9	5.3
Total noninterest income	171	147	16.5	64	39	62.0
Total noninterest expense	500	473	5.7	190	123	54.8
Securities gains (losses)	3	32	-91.0	0	5	-91.3
Applicable income taxes	59	46	28.0	13	11	17.5
Extraordinary gains, net	2	(1)	259.7	1	(2)	161.3
Net income	143	109	30.3	36	35	4.3
Net charge-offs	20	73	-73.4	9	13	-29.6
Cash dividends	93	49	90.6	24	18	35.1
Net operating income	138	90	54.1	35	35	-0.4

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New York

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	175	174	177	-1 1
Total employees (full-time equivalent)	203.859	202,368	203,067	0 4
CONDITION DATA				
Total assets	$770,463	$765,989	$700.055	10 1
Loans secured by real estate	104.831	103,082	104.335	0.5
Commercial & industrial loans	130,264	133,456	139,273	-6 5
Loans to individuals	56,733	55,142	52,975	7 1
Farm loans	543	521	550	-1 4
Other loans & leases	102,292	103,113	87,934	16 3
Less Unearned income	1,901	2,125	2,608	-27.1
Total loans & leases	392,761	393,188	382,460	2 7
Less Reserve for losses	12,491	13,113	13,348	-6 4
Net loans & leases	380,270	380,075	369,112	3 0
Investment securities	114,962	110,100	105,739	8.7
Other real estate owned	5,907	6,741	7,391	-20.1
Goodwill and other intangibles	1,656	1,471	1,211	36 8
All other assets	267,668	267,603	216,602	23 6
Total liabilities and capital	770,463	765,989	700,055	10 1
Noninterest-bearing deposits	97,259	92,499	91,123	6 7
Interest-bearing deposits	396,661	394,111	378,274	4 9
Other borrowed funds	140,710	142,010	120,259	17 0
Subordinated debt	16,940	16,806	15,886	6 6
All other liabilities	64,908	69,589	49,380	31 5
Equity capital	53,985	50,973	45,134	19 6
Loans and leases 30-89 days past due	5,023	4,560	6,471	-22 4
Noncurrent loans and leases	13,042	16,180	22,136	-41 1
Restructured loans and leases	4,616	5,753	5,537	-16 6
Direct and indirect investments in real estate	225	2	13	1628 6
1-4 Family residential mortgages	50,347	47,140	44,282	12 4
Mortgage-backed securities	52,575	53,163	47,369	11 0
Earning assets	661,334	645,580	603,311	9 6
Long-term assets (5+ years)	77,036	75,053	72,372	6 4
Volatile liabilities	398,575	399,232	357,415	11 5
Foreign office deposits	235,646	233,848	211,372	11.5
Unused loan commitments	244,324	229,375	216,861	12 7
Off-balance-sheet derivatives	9,408,409	9,511,528	6,780,554	38 8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$53,503	$54,187	-1.3	$13,784	$13,574	1 5
Total interest expense	31,937	33,513	-4 7	8,291	8,058	2.9
Net interest income	21,566	20,674	4 3	5,492	5,516	-0 4
Provision for loan losses	4,496	6,745	-33.4	1,046	1,713	-39 0
Total noninterest income	20,948	17,111	22 4	5,682	4,131	37 6
Total noninterest expense	29,341	25,544	14 9	7,526	6,433	17 0
Securities gains (losses)	1,003	955	5.1	113	147	-23 1
Applicable income taxes	3,017	1,817	66.0	769	412	87 0
Extraordinary gains, net	1,020	120	753.1	60	23	157 5
Net income	7,684	4,753	61.7	2,006	1,260	59 2
Net charge-offs	5,158	6,829	-24 5	1,662	1,697	-2 1
Cash dividends	1,720	1,863	-7 7	668	751	-11 1
Net operating income	5,952	3,903	52.5	1,840	1,114	65.2

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North Carolina

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	71	78	78	-9 0
Total employees (full-time equivalent)	38,264	37,764	35,812	6.9
CONDITION DATA				
Total assets	$103,972	$95,241	$88,370	17.7
Loans secured by real estate	30,457	29,218	26,403	15 4
Commercial & industrial loans	16,794	16,343	15,319	9 6
Loans to individuals	6,782	6,580	6,041	12.3
Farm loans	349	376	300	16 5
Other loans & leases	6,850	6,364	6,275	9 2
Less Unearned income	42	46	40	4 4
Total loans & leases	61,192	58,835	54,299	12.7
Less: Reserve for losses	912	909	841	8.5
Net loans & leases	60,279	57,926	53,458	12.8
Investment securities	22,225	19,171	17,405	27.7
Other real estate owned	196	224	301	-34 9
Goodwill and other intangibles	159	120	78	104 8
All other assets	21,113	17,800	17,127	23.3
Total liabilities and capital	103,972	95,241	88,370	17.7
Noninterest-bearing deposits	13,292	12,264	11,760	13.0
Interest-bearing deposits	57,000	53,656	49,467	15 2
Other borrowed funds	23,503	19,427	18,275	28 6
Subordinated debt	756	769	800	-5.5
All other liabilities	2,331	2,169	2,113	10.3
Equity capital	7,090	6,956	5,955	19 1
Loans and leases 30-89 days past due	451	422	441	2.2
Noncurrent loans and leases	504	582	729	-30 8
Restructured loans and leases	28	34	45	-38 7
Direct and indirect investments in real estate	1	0	1	22 1
1-4 Family residential mortgages	17,607	16,564	14,386	22 8
Mortgage-backed securities	2,110	2,145	1,828	15 5
Earning assets	92,733	85,207	78,463	18 2
Long-term assets (5+ years)	12,247	11,532	11,519	6 3
Volatile liabilities	38,360	32,500	29,262	31.1
Foreign office deposits	9,521	7,626	5,152	84 8
Unused loan commitments	33,256	31,070	25,656	29 6
Off-balance-sheet derivatives	264,239	210,239	64,668	308 6

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$5,904	$5,854	0.9	$1,491	$1,417	5.2
Total interest expense	2,679	2,830	-5.3	660	617	6 9
Net interest income	3,225	3,024	6.7	831	800	3.9
Provision for loan losses	145	212	-31.6	28	45	-37.5
Total noninterest income	1,663	1,289	29 0	456	348	31 1
Total noninterest expense	3,144	2,851	10.3	869	783	11 1
Securities gains (losses)	31	43	-27 8	6	2	231.1
Applicable income taxes	504	386	30 5	119	98	21.5
Extraordinary gains, net	2	1	70 6	1	0	16.8
Net income	1,128	908	24.3	277	225	23.4
Net charge-offs	114	269	-57.5	34	125	-72.9
Cash dividends	436	396	10.2	193	207	-6 9
Net operating income	1,105	877	25.9	273	223	22 3

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North Dakota

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	141	142	143	-1 4
Total employees (full-time equivalent)	3,683	3,643	3,615	1 9
CONDITION DATA				
Total assets	$8,124	$7,860	$7,899	2 9
Loans secured by real estate	1,751	1,719	1,428	22 6
Commercial & industrial loans	846	835	753	12 2
Loans to individuals	677	657	610	11 1
Farm loans	938	1,004	846	10 8
Other loans & leases	101	100	107	-5 5
Less Unearned income	4	4	3	27 5
Total loans & leases	4,309	4,310	3,742	15 2
Less Reserve for losses	78	81	77	2 1
Net loans & leases	4,231	4,230	3,665	15 4
Investment securities	2,707	2,712	2,707	-0 0
Other real estate owned	8	9	15	-47 4
Goodwill and other intangibles	27	28	22	22 8
All other assets	1,151	882	1,489	-22 7
Total liabilities and capital	8,124	7,860	7,899	2 9
Noninterest-bearing deposits	1,022	825	945	8 1
Interest-bearing deposits	6,080	5,950	6,059	0 4
Other borrowed funds	157	237	98	59 9
Subordinated debt	25	15	15	63 2
All other liabilities	98	97	99	-1 5
Equity capital	742	736	682	8 8
Loans and leases 30-89 days past due	50	39	56	-11 2
Noncurrent loans and leases	31	39	41	-23 7
Restructured loans and leases	11	13	17	-34 7
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	803	794	560	40 2
Mortgage-backed securities	1,155	1,174	1,125	2 6
Earning assets	7,370	7,192	7,167	2 8
Long-term assets (5+ years)	1,295	1,230	1,130	14 6
Volatile liabilities	606	701	546	11 0
Foreign office deposits	0	0	0	NA
Unused loan commitments	948	874	728	30 2
Off-balance-sheet derivatives	42	42	102	-58 7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$546	$586	-6 9	$138	$143	-3 6
Total interest expense	221	275	-19 8	53	62	-14 0
Net interest income	325	311	4.5	84	81	4 3
Provision for loan losses	7	17	-55 5	1	4	-76 2
Total noninterest income	66	59	11 5	17	16	8 9
Total noninterest expense	241	232	3 9	69	66	5 1
Securities gains (losses)	3	3	-21.5	0	0	-54 8
Applicable income taxes	45	37	23.7	10	8	20 3
Extraordinary gains, net	7	(2)	460 6	0	(2)	121.3
Net income	107	87	23 5	22	17	30 0
Net charge-offs	6	15	-60 8	3	5	-35 7
Cash dividends	69	52	30 8	28	21	32 5
Net operating income	98	86	14 2	22	19	12 9

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Ohio

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93 4
Number of institutions reporting	263	264	270	-2.6
Total employees (full-time equivalent)	56,607	55,929	54,558	3 8
CONDITION DATA				
Total assets	$132,919	$128,962	$124,662	6 6
Loans secured by real estate	35,537	34,342	31,891	11 4
Commercial & industrial loans	19,008	18,670	18,123	4 9
Loans to individuals	28,359	27,133	25,256	12.3
Farm loans	530	592	509	4.1
Other loans & leases	6,705	6,319	6,031	11 2
Less Unearned income	80	85	116	-31 1
Total loans & leases	90,058	86,971	81,693	10.2
Less. Reserve for losses	1,897	1,920	1,752	8 2
Net loans & leases	88,162	85,051	79,941	10.3
Investment securities	26,573	26,267	26,481	0 3
Other real estate owned	204	285	436	-53 1
Goodwill and other intangibles	691	630	716	-3.6
All other assets	17,290	16,729	17,088	1.2
Total liabilities and capital	132,919	128,962	124,662	6.6
Noninterest-bearing deposits	17,558	15,679	16,735	4.9
Interest-bearing deposits	78,988	76,591	77,437	2.0
Other borrowed funds	22,427	22,915	18,013	24 5
Subordinated debt	1,635	1,632	905	80 8
All other liabilities	2,031	1,878	1,838	10.5
Equity capital	10,280	10,266	9,733	5.6
Loans and leases 30-89 days past due	1,106	1,126	1,236	-10.5
Noncurrent loans and leases	887	971	1,229	-27 8
Restructured loans and leases	94	96	132	-29 1
Direct and indirect investments in real estate	1	1	1	34 8
1-4 Family residential mortgages	21,413	20,360	18,530	15.9
Mortgage-backed securities	12,671	12,290	11,336	11.8
Earning assets	121,039	117,601	112,493	7.6
Long-term assets (5+ years)	17,846	17,551	16,430	8 6
Volatile liabilities	31,350	31,015	25,784	21 6
Foreign office deposits	3,945	2,827	2,354	67 6
Unused loan commitments	92,415	85,502	78,410	17.9
Off-balance-sheet derivatives	65,188	64,016	44,401	46 8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93 4
Total interest income	$9,502	$9,739	-2.4	$2,389	$2,404	-0.6
Total interest expense	3,304	3,907	-15.4	824	890	-7.4
Net interest income	6,198	5,832	6.3	1,566	1,514	3.4
Provision for loan losses	776	1,053	-26.2	193	254	-24.1
Total noninterest income	2,535	2,197	15.4	711	580	22.5
Total noninterest expense	5,097	4,624	10.2	1,360	1,209	12 4
Securities gains (losses)	78	84	-7.2	2	4	-47 4
Applicable income taxes	935	747	25.2	230	198	16.2
Extraordinary gains, net	8	3	201.0	1	2	-29 8
Net income	2,009	1,692	18.8	497	439	13.3
Net charge-offs	588	904	-35 0	159	213	-25.2
Cash dividends	1,705	747	128.2	656	399	64 5
Net operating income	1,949	1,632	19 4	495	434	13.9

Quarterly Banking Profile

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Oklahoma

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93 4
Number of institutions reporting	371	381	394	-5 8
Total employees (full-time equivalent)	16,952	16,865	16,542	2.5
CONDITION DATA				
Total assets	$31,039	$30,564	$30,432	2 0
Loans secured by real estate	6,655	6,387	5,946	11 9
Commercial & industrial loans	3,473	3,327	3,124	11 2
Loans to individuals	3,099	3,043	2,858	8 4
Farm loans	1,481	1,290	1,319	12.3
Other loans & leases	434	440	484	-10 1
Less Unearned income	72	79	97	-26 0
Total loans & leases	15,070	14,407	13,634	10 5
Less: Reserve for losses	278	286	291	-4 8
Net loans & leases	14,792	14,122	13,342	10 9
Investment securities	11,919	12,154	11,773	1 2
Other real estate owned	130	152	250	-48 0
Goodwill and other intangibles	180	163	156	15 4
All other assets	4,018	3,973	4,910	-18 1
Total liabilities and capital	31,039	30,564	30,432	2 0
Noninterest-bearing deposits	5,066	4,809	4,971	1 9
Interest-bearing deposits	21,903	21,590	21,663	1 1
Other borrowed funds	975	1,089	755	29 1
Subordinated debt	24	24	24	0 5
All other liabilities	229	228	444	-48 3
Equity capital	2,844	2,823	2,576	10 4
Loans and leases 30-89 days past due	186	171	179	3 8
Noncurrent loans and leases	211	223	241	-12 6
Restructured loans and leases	51	51	63	-19 4
Direct and indirect investments in real estate	0	0	0	-91 3
1-4 Family residential mortgages	3,220	3,055	2,873	13 0
Mortgage-backed securities	4,382	4,854	4,284	2.3
Earning assets	28,039	27,683	26,979	3 9
Long-term assets (5+ years)	4,732	5,076	4,600	2 9
Volatile liabilities	3,810	3,982	3,569	6 8
Foreign office deposits	25	44	42	-39 8
Unused loan commitments	3,321	3,235	2,638	25.9
Off-balance-sheet derivatives	62	42	74	-16.2

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,991	$2,042	-2 5	$496	$501	-1 1
Total interest expense	765	879	-13 0	190	198	-4 2
Net interest income	1,226	1,163	5 4	306	303	1 0
Provision for loan losses	26	65	-60.0	6	17	-61 5
Total noninterest income	412	385	6.9	107	99	8 0
Total noninterest expense	1,133	1,048	8 1	310	285	8 9
Securities gains (losses)	24	23	7 1	8	3	185 3
Applicable income taxes	145	131	10 5	27	32	-14 2
Extraordinary gains, net	40	13	214 7	2	4	-48 1
Net income	398	339	17 4	79	76	4 5
Net charge-offs	42	70	-39 9	15	23	-34 4
Cash dividends	176	134	31.1	85	62	36.3
Net operating income	340	310	9 7	71	70	2 0

Quarterly Banking Profile
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Oregon

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93 4
Number of institutions reporting	45	46	48	-6 3
Total employees (full-time equivalent)	16,730	16,465	16,190	3.3
CONDITION DATA				
Total assets	$27,390	$26,228	$25,823	6 1
Loans secured by real estate	7,968	7,616	7,218	10.4
Commercial & industrial loans	4,981	4,605	4,458	11 7
Loans to individuals	4,032	3,829	3,502	15.1
Farm loans	510	436	413	23 6
Other loans & leases	1,572	1,608	1,807	-13.0
Less Unearned income	7	5	5	41.6
Total loans & leases	19,056	18,088	17,394	9 6
Less: Reserve for losses	436	433	452	-3 6
Net loans & leases	18,620	17,655	16,941	9 9
Investment securities	4,339	4,368	4,621	-6 1
Other real estate owned	25	26	57	-56.0
Goodwill and other intangibles	246	262	297	-17 2
All other assets	4,160	3,917	3,907	6.5
Total liabilities and capital	27,390	26,228	25,823	6 1
Noninterest-bearing deposits	4,986	4,571	4,227	18 0
Interest-bearing deposits	16,432	16,244	16,346	0.5
Other borrowed funds	2,948	2,342	2,394	23 2
Subordinated debt	109	109	31	253.6
All other liabilities	531	601	524	1.2
Equity capital	2,384	2,361	2,302	3.6
Loans and leases 30-89 days past due	165	120	253	-34 8
Noncurrent loans and leases	172	222	288	-40.3
Restructured loans and leases	6	5	9	-31.6
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	4,355	4,049	3,679	18 5
Mortgage-backed securities	1,713	1,763	1,778	-3.7
Earning assets	24,047	23,235	22,458	7.1
Long-term assets (5+ years)	5,812	5,622	5,543	4 9
Volatile liabilities	3,852	3,180	3,321	16.0
Foreign office deposits	34	2	0	NA
Unused loan commitments	14,113	12,681	10,188	38.5
Off-balance-sheet derivatives	3,995	3,485	4,565	-12.5

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,833	$1,921	-4.6	$477	$473	1.0
Total interest expense	557	721	-22.8	144	159	-9.5
Net interest income	1,276	1,199	6.3	334	314	6.3
Provision for loan losses	62	145	-57.2	23	25	-10 0
Total noninterest income	738	606	21.7	194	199	-2.6
Total noninterest expense	1,313	1,143	14.9	349	343	1.6
Securities gains (losses)	4	4	-8.5	0	0	754 8
Applicable income taxes	238	185	29.0	58	53	8.1
Extraordinary gains, net	(7)	(29)	76.0	4	(29)	112.1
Net income	397	308	28 8	102	62	64.1
Net charge-offs	80	147	-45 6	21	26	-19 5
Cash dividends	354	150	135.5	101	93	9 0
Net operating income	402	334	20.1	98	91	8 0

Quarterly Banking Profile

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Pennsylvania

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	261	263	281	-7 1
Total employees (full-time equivalent)	77,589	75,487	76,461	1 5
CONDITION DATA				
Total assets	$190,393	$178,799	$182,907	4 1
Loans secured by real estate	55,007	49,440	48,246	14 0
Commercial & industrial loans	33,485	31,159	31,322	6 9
Loans to individuals	15,435	15,260	15,171	1 7
Farm loans	251	241	244	2 9
Other loans & leases	13,796	13,258	11,976	15 2
Less: Unearned income	308	317	397	-22 4
Total loans & leases	117,666	109,041	106,562	10 4
Less: Reserve for losses	2,634	2,591	2,592	1 6
Net loans & leases	115,032	106,450	103,970	10 6
Investment securities	51,408	49,421	51,356	0 1
Other real estate owned	564	629	812	-30 5
Goodwill and other intangibles	1,082	773	885	22 3
All other assets	22,307	21,526	25,885	-13 8
Total liabilities and capital	190,393	178,799	182,907	4 1
Noninterest-bearing deposits	27,822	24,673	25,834	7 7
Interest-bearing deposits	112,248	109,319	115,463	-2 8
Other borrowed funds	28,008	24,961	21,832	28 3
Subordinated debt	1,369	1,384	1,300	5 3
All other liabilities	5,538	3,933	5,000	10 8
Equity capital	15,407	14,529	13,477	14 3
Loans and leases 30-89 days past due	1,572	1,464	1,929	-18 5
Noncurrent loans and leases	1,889	2,152	2,365	-20 1
Restructured loans and leases	158	94	132	19 6
Direct and indirect investments in real estate	7	3	15	-55 5
1-4 Family residential mortgages	36,142	30,225	29,383	22 3
Mortgage-backed securities	29,519	28,581	29,483	0 1
Earning assets	172,741	162,060	163,887	5 4
Long-term assets (5+ years)	49,928	46,891	48,627	2 7
Volatile liabilities	41,027	35,818	34,689	18 3
Foreign office deposits	3,686	3,168	3,909	-5 7
Unused loan commitments	43,103	42,008	38 420	12.2
Off-balance-sheet derivatives	64,209	60,657	54,677	17 4

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$11,502	$12,370	-7 0	$2,829	$3,029	-6 6
Total interest expense	4,479	5,703	-21 5	1,075	1,269	-15 3
Net interest income	7,023	6,668	5.3	1,754	1,760	-0 4
Provision for loan losses	565	864	-34 6	129	236	-45 2
Total noninterest income	2,460	2,445	0 6	624	680	-8.3
Total noninterest expense	6,111	6,003	1 8	1,522	1,658	-8 3
Securities gains (losses)	360	396	-9 0	22	70	-69 0
Applicable income taxes	940	788	19 2	218	199	9 3
Extraordinary gains, net	86	38	126 4	3	0	960 8
Net income	2,312	1,892	22 2	534	416	28 3
Net charge-offs	588	858	-31 5	128	250	-48 8
Cash dividends	1,097	738	48.5	272	286	-5 1
Net operating income	1,973	1,577	25 1	515	369	39.7

Quarterly Banking Profile
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Rhode Island

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	10	11	12	-16.7
Total employees (full-time equivalent)	6,078	5,085	5,532	9 9
CONDITION DATA				
Total assets	$13,527	$13,590	$13,323	1.5
Loans secured by real estate	4,298	4,449	3,997	7 5
Commercial & industrial loans	3,358	3,375	3,247	3 4
Loans to individuals	737	725	654	12.7
Farm loans	0	0	0	-14.3
Other loans & leases	1,207	1,218	1,308	-7.7
Less: Unearned income	6	6	5	16.1
Total loans & leases	9,594	9,762	9,201	4 3
Less: Reserve for losses	317	322	337	-6.0
Net loans & leases	9,277	9,440	8,864	4 7
Investment securities	2,371	2,417	1,902	24.7
Other real estate owned	68	83	146	-53.8
Goodwill and other intangibles	44	46	37	19.3
All other assets	1,767	1,604	2,374	-25.6
Total liabilities and capital	13,527	13,590	13,323	1.5
Noninterest-bearing deposits	1,924	1,869	2,298	-16.3
Interest-bearing deposits	8,118	7,913	8,050	0 8
Other borrowed funds	1,997	2,375	1,692	18 0
Subordinated debt	91	93	93	-2.2
All other liabilities	328	288	203	61 3
Equity capital	1,069	1,051	987	8.3
Loans and leases 30-89 days past due	166	192	263	-36 9
Noncurrent loans and leases	218	253	334	-34 8
Restructured loans and leases	32	30	57	-42 8
Direct and indirect investments in real estate	1	0	0	690 0
1-4 Family residential mortgages	2,758	2,965	2,532	9 2
Mortgage-backed securities	1,306	1,297	967	35.1
Earning assets	11,915	12,052	11,858	0.5
Long-term assets (5+ years)	2,238	2,366	2,082	7.5
Volatile liabilities	3,570	4,067	3,860	-7.5
Foreign office deposits	247	248	385	-35.9
Unused loan commitments	4,780	4,257	4,297	11.2
Off-balance-sheet derivatives	10,202	9,808	3,929	159.7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93 4
Total interest income	$878	$932	-5 8	$218	$153	42 5
Total interest expense	368	499	-26.2	87	105	-16 4
Net interest income	510	434	17.6	130	48	170 1
Provision for loan losses	62	133	-53 7	8	24	-67.5
Total noninterest income	307	584	-47.5	79	146	-45.7
Total noninterest expense	501	707	-29.1	126	205	-38.7
Securities gains (losses)	16	33	-51.2	0	4	-96.0
Applicable income taxes	101	88	14 6	26	(12)	312.8
Extraordinary gains, net	5	0	NA	(2)	0	NA
Net income	175	123	41.7	48	(18)	359.8
Net charge-offs	81	213	-61.8	13	84	-84 6
Cash dividends	56	33	68 9	(2)	19	-111.7
Net operating income	159	102	55.7	50	(21)	334.0

Quarterly Banking Profile
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South Carolina

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)

	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	78	80	81	-3 7
Total employees (full-time equivalent)	12,124	12,183	13,213	-8 2
CONDITION DATA				
Total assets	$27,690	$27,516	$26,191	5 7
Loans secured by real estate	10,018	9,793	9,032	10 9
Commercial & industrial loans	2,881	2,756	2,716	6 1
Loans to individuals	3,169	3,026	2,743	15 6
Farm loans	72	92	68	4 8
Other loans & leases	1,096	951	1,246	-12 1
Less Unearned income	25	26	29	-15 4
Total loans & leases	17,211	16,591	15,777	9 1
Less Reserve for losses	397	416	397	0 1
Net loans & leases	16,814	16,175	15,380	9 3
Investment securities	6,835	6,967	6,477	5.5
Other real estate owned	78	105	120	-35 1
Goodwill and other intangibles	116	113	120	-3 4
All other assets	3,848	4,155	4,094	-6.0
Total liabilities and capital	27,690	27,516	26,191	5 7
Noninterest-bearing deposits	3,968	3,720	3,520	12 7
Interest-bearing deposits	16,649	16,614	15,911	4 6
Other borrowed funds	4,401	4,569	4,414	-0 3
Subordinated debt	94	94	65	45.4
All other liabilities	333	304	270	23 6
Equity capital	2,246	2,215	2,011	11.7
Loans and leases 30-89 days past due	176	169	205	-13 9
Noncurrent loans and leases	255	294	334	-23 8
Restructured loans and leases	15	16	5	214 0
Direct and indirect investments in real estate	2	2	0	NA
1-4 Family residential mortgages	4,740	4,608	4,058	17 0
Mortgage-backed securities	2,207	2,226	2,061	7 1
Earning assets	25,133	24,874	23,516	6 9
Long-term assets (5+ years)	4,251	4,167	3,972	7 0
Volatile liabilities	5,930	6,171	5,940	-0 2
Foreign office deposits	5	4	0	NA
Unused loan commitments	3,783	3,484	3,290	15 0
Off-balance-sheet derivatives	246	264	286	-14 1

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,791	$1,888	-5 1	$442	$456	-3 1
Total interest expense	679	816	-16 8	167	180	-7 4
Net interest income	1,112	1,072	3 8	275	276	-0 2
Provision for loan losses	44	143	-69 3	2	35	-95 0
Total noninterest income	339	316	7 3	85	81	4 5
Total noninterest expense	977	944	3 5	257	249	3 1
Securities gains (losses)	19	14	31 9	1	2	-49 7
Applicable income taxes	148	110	34 5	33	35	-6 8
Extraordinary gains, net	53	1	5593 4	0	1	-104 3
Net income	354	206	72.2	70	40	73 4
Net charge-offs	56	131	-57 0	21	52	-59.3
Cash dividends	170	35	378 3	59	8	612 8
Net operating income	289	195	47 9	69	38	80 9

Quarterly Banking Profile

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South Dakota

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	121	121	121	0 0
Total employees (full-time equivalent)	8,455	8,431	8,321	1 6
CONDITION DATA				
Total assets	$19,185	$17,762	$16,404	17 0
Loans secured by real estate	1,772	1,718	1,478	19 9
Commercial & industrial loans	2,163	2,397	2,075	4 2
Loans to individuals	9,146	7,769	5,874	55 7
Farm loans	1,429	1,363	1,336	7 0
Other loans & leases	158	157	208	-23 9
Less Unearned income	2	2	3	-47 8
Total loans & leases	14,667	13,401	10,968	33 7
Less Reserve for losses	379	376	274	38 2
Net loans & leases	14,288	13,025	10,694	33 6
Investment securities	2,288	2,269	2,445	-6.5
Other real estate owned	9	12	12	-27 8
Goodwill and other intangibles	303	262	295	2 8
All other assets	2,298	2,193	2,958	-22.3
Total liabilities and capital	19,185	17,762	16,404	17 0
Noninterest-bearing deposits	1,886	1,162	1,181	59 7
Interest-bearing deposits	9,114	10,304	9,983	-8 7
Other borrowed funds	4,918	2,651	1,724	185 3
Subordinated debt	166	151	61	172.5
All other liabilities	1,237	1,531	1,400	-11 7
Equity capital	1,864	1,962	2,055	-9 3
Loans and leases 30-89 days past due	733	730	708	3 6
Noncurrent loans and leases	327	308	308	6 2
Restructured loans and leases	17	18	18	-7 1
Direct and indirect investments in real estate	1	0	0	369 9
1-4 Family residential mortgages	836	817	684	23.9
Mortgage-backed securities	818	849	971	-15 8
Earning assets	16,968	15,567	14,057	20 7
Long-term assets (5+ years)	1,352	1,331	1,449	-6 7
Volatile liabilities	6,226	4,233	3,080	102 1
Foreign office deposits	0	0	0	NA
Unused loan commitments	72,983	71,051	60,205	21 2
Off-balance-sheet derivatives	13,564	9,109	17,320	-21 7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,599	$1,439	11 1	$439	$332	32 0
Total interest expense	614	665	-7.7	154	147	4 9
Net interest income	984	774	27.2	285	186	53.4
Provision for loan losses	387	354	9.5	87	70	23.1
Total noninterest income	2,276	1,911	19 1	572	517	10 7
Total noninterest expense	1,850	1,566	18 2	504	400	26 0
Securities gains (losses)	6	9	-36.3	1	0	148.0
Applicable income taxes	408	282	44.4	131	87	49 9
Extraordinary gains, net	9	(5)	266.3	29	(6)	626.6
Net income	629	486	29.3	165	139	18.6
Net charge-offs	349	333	4.7	84	69	22.3
Cash dividends	818	359	128.2	32	327	-90.3
Net operating income	616	486	26 9	135	145	-6.5

Quarterly Banking Profile
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Tennessee

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	250	247	251	-0 4
Total employees (full-time equivalent)	27,274	26,223	25,643	6 4
CONDITION DATA				
Total assets	$57,016	$55,673	$52,850	7 9
Loans secured by real estate	17,665	16,377	13,956	26 6
Commercial & industrial loans	7,319	6,878	6,537	12.0
Loans to individuals	6,638	6,514	6,420	3 4
Farm loans	327	369	294	11 3
Other loans & leases	1,695	1,636	1,771	-4 3
Less Unearned income	208	208	202	2.9
Total loans & leases	33,437	31,566	28,777	16 2
Less Reserve for losses	674	697	668	0 8
Net loans & leases	32,763	30,869	28,109	16 6
Investment securities	16,342	16,840	15,702	4 1
Other real estate owned	183	193	274	-33 1
Goodwill and other intangibles	196	130	104	88 6
All other assets	7,532	7,641	8,662	-13 1
Total liabilities and capital	57,016	55,673	52,850	7 9
Noninterest-bearing deposits	8,277	7,557	7,665	8 0
Interest-bearing deposits	38,319	37,794	36,439	5 2
Other borrowed funds	4,762	4,645	3,903	22.0
Subordinated debt	76	76	101	-25 0
All other liabilities	843	993	728	15 8
Equity capital	4,740	4,607	4,013	18 1
Loans and leases 30-89 days past due	395	426	425	-7 1
Noncurrent loans and leases	267	323	416	-35 8
Restructured loans and leases	27	27	26	5 4
Direct and indirect investments in real estate	2	4	4	-39 5
1-4 Family residential mortgages	11,055	10,017	7,969	39.0
Mortgage-backed securities	7,574	7,879	7,689	-1 5
Earning assets	51,608	50,221	47,377	8.9
Long-term assets (5+ years)	10,049	10,229	9,620	4 5
Volatile liabilities	8,778	8,697	7,689	14 2
Foreign office deposits	156	170	186	-15 8
Unused loan commitments	10,051	9,349	8,429	19 2
Off-balance-sheet derivatives	5,285	6,005	2,043	158.7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$3,651	$3,669	-0.5	$915	$896	2 2
Total interest expense	1,438	1,621	-11 3	354	362	-2 1
Net interest income	2,213	2,048	8 1	561	534	5 2
Provision for loan losses	96	256	-62 5	9	67	-87 1
Total noninterest income	872	723	20.6	247	190	29 9
Total noninterest expense	1,996	1,793	11 3	547	479	14 1
Securities gains (losses)	17	33	-49.2	4	3	13.7
Applicable income taxes	331	236	40.2	85	55	53 8
Extraordinary gains, net	11	3	221 6	(1)	1	-154.5
Net income	690	523	32.0	171	127	35 1
Net charge-offs	111	223	-50 4	35	74	-52 6
Cash dividends	281	212	32 5	115	80	44 1
Net operating income	667	496	34.5	169	123	37 8

Quarterly Banking Profile

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Texas

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	1,011	1,028	1,089	-7.2
Total employees (full-time equivalent)	90,303	89,230	84,939	6.3
CONDITION DATA				
Total assets	$183,958	$183,203	$175,487	4.8
Loans secured by real estate	37,999	37,404	31,960	18.9
Commercial & industrial loans	25,866	24,921	24,908	3.9
Loans to individuals	16,687	16,816	15,042	10.9
Farm loans	2,957	2,840	2,638	12.5
Other loans & leases	7,045	6,824	6,688	5.3
Less: Unearned income	538	557	556	-3.2
Total loans & leases	90,027	88,247	80,680	11.6
Less: Reserve for losses	1,405	1,457	1,631	-13.8
Net loans & leases	88,622	86,790	79,049	12.1
Investment securities	60,890	60,098	55,172	10.4
Other real estate owned	628	721	1,030	-39.0
Goodwill and other intangibles	1,342	1,342	624	115.2
All other assets	32,476	34,251	39,613	-18.0
Total liabilities and capital	183,958	183,203	175,487	4.8
Noninterest-bearing deposits	35,366	33,078	33,260	6.3
Interest-bearing deposits	115,813	115,010	114,976	0.7
Other borrowed funds	15,834	17,709	13,059	21.3
Subordinated debt	654	657	541	20.8
All other liabilities	1,733	2,146	1,681	3.1
Equity capital	14,558	14,602	11,969	21.6
Loans and leases 30-89 days past due	957	950	995	-4.0
Noncurrent loans and leases	907	1,121	1,340	-32.3
Restructured loans and leases	337	385	392	-14.0
Direct and indirect investments in real estate	1	8	7	-86.8
1-4 Family residential mortgages	22,015	21,976	16,999	28.6
Mortgage-backed securities	25,697	25,102	22,839	12.5
Earning assets	163,274	163,328	154,454	5.7
Long-term assets (5+ years)	26,492	27,113	26,912	-1.6
Volatile liabilities	32,341	34,854	31,125	3.9
Foreign office deposits	1,482	1,789	1,362	8.8
Unused loan commitments	34,219	34,336	31,470	8.7
Off-balance-sheet derivatives	30,618	30,554	27,059	13.2

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$10,556	$10,660	-1.0	$2,656	$2,647	0.3
Total interest expense	3,954	4,612	-14.3	970	1,026	-5.5
Net interest income	6,602	6,048	9.2	1,686	1,621	4.0
Provision for loan losses	155	369	-57.9	52	65	-21.2
Total noninterest income	3,002	2,693	11.5	707	715	-1.1
Total noninterest expense	6,774	6,216	9.0	1,730	1,737	-0.4
Securities gains (losses)	132	192	-31.3	20	(5)	521.8
Applicable income taxes	870	538	61.7	188	131	43.7
Extraordinary gains, net	455	61	644.0	38	23	61.3
Net income	2,392	1,871	27.8	480	421	14.2
Net charge-offs	238	463	-48.6	84	115	-27.2
Cash dividends	1,036	833	24.4	466	361	29.0
Net operating income	1,844	1,652	11.6	428	406	5.4

Quarterly Banking Profile
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Utah

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	48	50	54	-11 1
Total employees (full-time equivalent)	7,865	7,644	7,152	10.0
CONDITION DATA				
Total assets	$15,399	$14,871	$14,344	7 4
Loans secured by real estate	4,115	3,958	3,351	22.8
Commercial & industrial loans	1,600	1,607	1,564	2 3
Loans to individuals	2,784	2,591	2,752	1.2
Farm loans	158	154	156	1 5
Other loans & leases	536	528	592	-9 3
Less Unearned income	15	14	12	23 5
Total loans & leases	9,178	8,823	8,403	9 2
Less Reserve for losses	207	204	195	6 2
Net loans & leases	8,972	8,619	8,208	9 3
Investment securities	3,375	3,469	3,289	2.6
Other real estate owned	19	22	37	-48 3
Goodwill and other intangibles	13	13	15	-14 0
All other assets	3,021	2,747	2,795	8 1
Total liabilities and capital	15,399	14,871	14,344	7 4
Noninterest-bearing deposits	2,673	2,537	2,345	14.0
Interest-bearing deposits	8,532	8,486	8,353	2 2
Other borrowed funds	2,604	2,110	2,140	21 7
Subordinated debt	49	50	37	31 9
All other liabilities	211	386	219	-3 9
Equity capital	1,331	1,301	1,250	6 4
Loans and leases 30-89 days past due	86	79	96	-9.8
Noncurrent loans and leases	78	80	103	-24 4
Restructured loans and leases	3	2	3	1 3
Direct and indirect investments in real estate	0	0	0	-100 0
1-4 Family residential mortgages	2,459	2,367	1,906	27 0
Mortgage-backed securities	986	1,080	1,116	-11.7
Earning assets	13,933	13,382	12,860	8 4
Long-term assets (5+ years)	2,614	2,558	2,025	29 1
Volatile liabilities	3,360	2,893	2,858	17 6
Foreign office deposits	75	64	69	8 4
Unused loan commitments	7,306	6,937	6,538	11 8
Off-balance-sheet derivatives	6,689	7,256	2,203	203 6

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,043	$1,137	-8.3	$277	$274	1.3
Total interest expense	363	441	-17 6	96	96	0.2
Net interest income	679	696	-2 4	181	178	1 9
Provision for loan losses	30	68	-55 2	5	10	-48 1
Total noninterest income	293	276	6 1	83	86	-3 0
Total noninterest expense	633	588	7.7	184	167	10.7
Securities gains (losses)	1	1	-43 4	0	0	-78 6
Applicable income taxes	106	104	1 9	25	28	-10 7
Extraordinary gains, net	(4)	0	-51442 9	0	0	255.5
Net income	199	213	-6 6	50	58	-15 1
Net charge-offs	13	74	-82.0	3	16	-81 0
Cash dividends	102	106	-3.5	28	51	-44 5
Net operating income	202	213	-4 7	49	58	-15 4

Quarterly Banking Profile
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Vermont

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Number of institutions reporting	20	20	21	-4 8
Total employees (full-time equivalent)	2,969	3,034	3,084	-3 7
CONDITION DATA				
Total assets	$5,832	$5,854	$5,578	4 5
Loans secured by real estate	2,943	2,896	2,777	6 0
Commercial & industrial loans	625	641	616	1 3
Loans to individuals	476	474	456	4 5
Farm loans	20	20	19	7 3
Other loans & leases	166	200	169	-1.3
Less: Unearned income	4	4	5	-7 9
Total loans & leases	4,226	4,226	4,031	4 8
Less: Reserve for losses	99	95	90	10.5
Net loans & leases	4,127	4,132	3,942	4 7
Investment securities	1,085	996	874	24 1
Other real estate owned	45	68	84	-46 8
Goodwill and other intangibles	9	9	5	98 1
All other assets	566	650	674	-16.1
Total liabilities and capital	5,832	5,854	5,578	4.5
Noninterest-bearing deposits	703	661	679	3 6
Interest-bearing deposits	4,130	4,198	4,133	-0 1
Other borrowed funds	475	482	278	70.7
Subordinated debt	20	20	20	-0.1
All other liabilities	54	49	43	25 3
Equity capital	450	444	426	5 6
Loans and leases 30-89 days past due	77	74	79	-2.1
Noncurrent loans and leases	131	140	124	5.7
Restructured loans and leases	6	11	17	-62 7
Direct and indirect investments in real estate	2	2	2	9 8
1-4 Family residential mortgages	1,570	1,543	1,488	6 3
Mortgage-backed securities	443	431	313	41.7
Earning assets	5,326	5,280	4,939	7 8
Long-term assets (5+ years)	809	876	663	22 0
Volatile liabilities	700	716	548	27 7
Foreign office deposits	0	0	0	NA
Unused loan commitments	872	889	791	10 2
Off-balance-sheet derivatives	168	179	156	7 6

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92.4-93.4
Total interest income	$404	$436	-7 4	$102	$104	-2 7
Total interest expense	158	209	-24 4	39	44	-11 4
Net interest income	246	227	8 3	62	60	3 6
Provision for loan losses	42	38	10.7	11	9	25.9
Total noninterest income	83	76	8.9	23	20	14 8
Total noninterest expense	248	234	5 8	64	60	7 8
Securities gains (losses)	5	6	-6.0	0	0	661 7
Applicable income taxes	9	8	15.2	2	3	-3 4
Extraordinary gains, net	(3)	0	NA	0	0	NA
Net income	33	29	12.9	8	9	-8.9
Net charge-offs	34	43	-20.0	6	15	-59 2
Cash dividends	10	10	-6.4	3	4	-33 0
Net operating income	32	25	28 4	8	9	-16 1

Quarterly Banking Profile
December 31, 1993

Virginia

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	165	166	170	-2 9
Total employees (full-time equivalent)	37,172	35,097	33,506	10 9
CONDITION DATA				
Total assets	$74,381	$72,953	$71,267	4 4
Loans secured by real estate	21,043	20,353	20,320	3 6
Commercial & industrial loans	8,418	7,926	8,126	3 6
Loans to individuals	10,784	10,889	9,628	12 0
Farm loans	159	176	156	1 4
Other loans & leases	3,512	1,681	2,192	60 2
Less Unearned income	384	397	409	-6 1
Total loans & leases	43,531	40,628	40,014	8 8
Less Reserve for losses	1,099	1,113	1 153	-4 7
Net loans & leases	42,432	39,514	38,861	9 2
Investment securities	19,653	19,243	18,160	8.2
Other real estate owned	354	437	588	-39 9
Goodwill and other intangibles	237	261	178	33 1
All other assets	11,706	13,498	13,480	-13 2
Total liabilities and capital	74,381	72,953	71,267	4 4
Noninterest-bearing deposits	10,695	10,162	10,310	3 7
Interest-bearing deposits	46,803	46,239	46,217	1 3
Other borrowed funds	9,665	9,325	8,217	17 6
Subordinated debt	461	475	418	10 4
All other liabilities	880	989	961	-8 4
Equity capital	5,876	5,763	5,145	14 2
Loans and leases 30-89 days past due	519	473	667	-22 2
Noncurrent loans and leases	736	843	1,077	-31 7
Restructured loans and leases	32	25	74	-56 7
Direct and indirect investments in real estate	2	2	3	-32 9
1-4 Family residential mortgages	12,195	11,582	11,349	7 2
Mortgage-backed securities	6,190	6,448	5,238	18 2
Earning assets	66,915	65,536	63,495	5 4
Long-term assets (5+ years)	11,643	11,532	10,966	6 2
Volatile liabilities	13,795	13 430	12,568	9 8
Foreign office deposits	209	177	73	184 4
Unused loan commitments	22,001	21,806	20,018	9 9
Off-balance-sheet derivatives	20,429	19,976	20,291	0 7

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$4,772	$5,099	-6 4	$1,255	$1,225	2 4
Total interest expense	1,895	2,315	-18 1	494	497	-0 6
Net interest income	2,877	2,785	3 3	760	728	4 5
Provision for loan losses	277	619	-55 2	66	119	-44 9
Total noninterest income	1,180	1,180	0 0	336	242	39 0
Total noninterest expense	2,758	2,778	-0.7	772	753	2.5
Securities gains (losses)	77	119	-35.3	1	36	-97.3
Applicable income taxes	315	190	65 8	74	29	157 0
Extraordinary gains, net	6	0	5050 9	1	(1)	222 6
Net income	788	497	58.7	187	104	80 0
Net charge-offs	285	657	-56 7	77	205	-62 4
Cash dividends	300	165	81 9	131	71	83.9
Net operating income	728	409	78 2	186	79	136 9

Quarterly Banking Profile

December 31, 1993

Washington

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	87	88	94	-7.4
Total employees (full-time equivalent)	21,139	21,087	21,295	-0.7
CONDITION DATA				
Total assets	$41,435	$40,859	$40,826	1.5
Loans secured by real estate	13,528	13,362	12,905	4.8
Commercial & industrial loans	7,989	7,786	7,582	5.4
Loans to individuals	7,267	7,043	6,662	9.1
Farm loans	997	1,125	993	0.5
Other loans & leases	1,169	1,171	1,299	-10.0
Less: Unearned income	11	10	9	22.9
Total loans & leases	30,940	30,477	29,432	5.1
Less: Reserve for losses	605	614	611	-1.0
Net loans & leases	30,335	29,863	28,821	5.3
Investment securities	4,341	4,236	4,328	0.3
Other real estate owned	117	167	250	-53.4
Goodwill and other intangibles	508	523	503	1.0
All other assets	6,135	6,070	6,925	-11.4
Total liabilities and capital	41,435	40,859	40,826	1.5
Noninterest-bearing deposits	8,837	8,600	8,590	2.9
Interest-bearing deposits	25,640	25,412	25,571	0.3
Other borrowed funds	2,181	2,171	2,043	6.8
Subordinated debt	395	395	422	-6.4
All other liabilities	538	428	617	-12.9
Equity capital	3,844	3,853	3,582	7.3
Loans and leases 30-89 days past due	315	318	633	-50.2
Noncurrent loans and leases	385	414	673	-42.7
Restructured loans and leases	17	24	50	-65.3
Direct and indirect investments in real estate	4	4	0	6387.5
1-4 Family residential mortgages	6,046	5,988	5,665	7.8
Mortgage-backed securities	1,083	981	1,119	-3.3
Earning assets	35,779	35,030	34,857	2.7
Long-term assets (5+ years)	5,976	5,752	5,078	17.7
Volatile liabilities	3,962	3,992	3,929	0.8
Foreign office deposits	79	76	37	112.4
Unused loan commitments	17,823	18,077	17,991	-0.9
Off-balance-sheet derivatives	30,455	29,425	19,919	52.9

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$2,896	$2,884	0.4	$734	$743	-1.2
Total interest expense	885	1,090	-18.8	209	253	-17.1
Net interest income	2,012	1,794	12.2	524	490	7.0
Provision for loan losses	92	193	-52.2	20	47	-57.7
Total noninterest income	819	748	9.5	198	190	4.1
Total noninterest expense	1,758	1,631	7.8	452	452	0.0
Securities gains (losses)	10	7	37.8	2	1	179.2
Applicable income taxes	333	241	38.0	86	62	37.6
Extraordinary gains, net	(8)	(15)	46.2	0	(16)	101.3
Net income	649	468	38.8	167	103	62.0
Net charge-offs	97	149	-35.0	29	54	-45.3
Cash dividends	373	215	73.6	160	79	101.3
Net operating income	650	478	36.1	165	119	38.9

Quarterly Banking Profile

December 31, 1993

West Virginia

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	148	150	164	-9 8
Total employees (full-time equivalent)	10,249	10,110	10,112	1 4
CONDITION DATA				
Total assets	$19,881	$19,702	$19,362	2 7
Loans secured by real estate	6,590	6,415	6,054	8 9
Commercial & industrial loans	1,630	1,558	1,527	6 8
Loans to individuals	2,644	2,685	2,585	2 3
Farm loans	23	23	20	11.2
Other loans & leases	285	268	256	11 4
Less Unearned income	71	81	88	-20 3
Total loans & leases	11,101	10,868	10,353	7.2
Less Reserve for losses	171	173	164	4 0
Net loans & leases	10,930	10,695	10,189	7.3
Investment securities	6,960	6,863	6,618	5 2
Other real estate owned	35	40	57	-39 2
Goodwill and other intangibles	58	56	53	9 4
All other assets	1,897	2,048	2,445	-22 4
Total liabilities and capital	19,881	19,702	19,362	2 7
Noninterest-bearing deposits	2,182	2,085	2,123	2 8
Interest-bearing deposits	14,392	14,397	14,229	1 2
Other borrowed funds	1,284	1,195	1,109	15 9
Subordinated debt	0	0	0	NA
All other liabilities	140	164	142	-1 2
Equity capital	1,882	1,860	1,760	7 0
Loans and leases 30-89 days past due	191	170	197	-3 0
Noncurrent loans and leases	120	131	136	-11 9
Restructured loans and leases	12	12	18	-32.3
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	4,365	4,239	3,976	9 4
Mortgage-backed securities	1,419	1,410	1,095	29 5
Earning assets	18,423	18,246	17,833	3 3
Long-term assets (5+ years)	3,873	3,929	3,234	19 7
Volatile liabilities	2,226	2,130	2,052	8 5
Foreign office deposits	0	0	0	NA
Unused loan commitments	1,560	1,465	1,353	15 4
Off-balance-sheet derivatives	1,684	1,205	50	3268 4

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$1,398	$1,477	-5 3	$350	$361	-3 1
Total interest expense	560	672	-16 7	136	154	-11 7
Net interest income	838	805	4.2	214	207	3.3
Provision for loan losses	38	64	-39 8	11	21	-48 7
Total noninterest income	150	135	11.2	43	37	15 7
Total noninterest expense	579	567	2.2	155	153	1 4
Securities gains (losses)	11	9	24.3	1	2	-62.5
Applicable income taxes	122	97	24 9	30	23	29 9
Extraordinary gains, net	2	0	829 0	0	0	-486 1
Net income	262	221	18.9	62	49	24 9
Net charge-offs	33	45	-27.3	13	16	-18 4
Cash dividends	145	120	21.2	41	38	6 3
Net operating income	252	214	17.9	62	48	28 2

Quarterly Banking Profile

December 31, 1993

Wisconsin

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Number of institutions reporting	436	437	445	-2 0
Total employees (full-time equivalent)	25,744	25,661	25,322	1.7
CONDITION DATA				
Total assets	$54,244	$52,603	$52,103	4 1
Loans secured by real estate	17,456	16,991	16,156	8 1
Commercial & industrial loans	8,502	8,256	8,063	5.5
Loans to individuals	5,874	5,593	5,106	15 0
Farm loans	1,163	1,170	1,112	4 6
Other loans & leases	1,822	1,603	1,769	3.0
Less Unearned income	5	5	8	-36.1
Total loans & leases	34,812	33,608	32,197	8 1
Less Reserve for losses	554	548	525	5 6
Net loans & leases	34,257	33,060	31,672	8.2
Investment securities	12,625	12,589	12,654	-0.2
Other real estate owned	86	95	124	-30 5
Goodwill and other intangibles	73	73	81	-9 7
All other assets	7,203	6,786	7,573	-4 9
Total liabilities and capital	54,244	52,603	52,103	4 1
Noninterest-bearing deposits	9,088	8,037	8,481	7 2
Interest-bearing deposits	35,272	34,740	35,066	0.6
Other borrowed funds	4,392	4,345	3,492	25 8
Subordinated debt	202	202	79	157.3
All other liabilities	641	676	658	-2 7
Equity capital	4,649	4,603	4,329	7 4
Loans and leases 30-89 days past due	384	434	415	-7 3
Noncurrent loans and leases	309	353	342	-9 7
Restructured loans and leases	37	41	38	-2 0
Direct and indirect investments in real estate	1	1	1	-0 2
1-4 Family residential mortgages	9,074	8,948	8,584	6 4
Mortgage-backed securities	3,734	3,835	3,817	-2.5
Earning assets	48,975	47,645	46,626	5 0
Long-term assets (5+ years)	5,449	5,294	5,341	2.0
Volatile liabilities	7,151	6,943	5,994	19.3
Foreign office deposits	339	236	229	48 2
Unused loan commitments	13,201	13,023	11,595	13 9
Off-balance-sheet derivatives	11,094	10,771	6,312	75 8

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92:4-93:4
Total interest income	$3,605	$3,798	-5 1	$900	$932	-3 3
Total interest expense	1,378	1,664	-17 2	336	382	-11.9
Net interest income	2,227	2,133	4 4	564	551	2.7
Provision for loan losses	99	146	-32.1	33	48	-30 7
Total noninterest income	757	678	11 6	201	183	9 8
Total noninterest expense	1,859	1,779	4.5	489	479	2 2
Securities gains (losses)	11	15	-22.8	3	0	424.7
Applicable income taxes	330	270	22.3	78	62	26.3
Extraordinary gains, net	28	(3)	1091.2	4	(4)	200 2
Net income	734	628	16 9	172	141	22 0
Net charge-offs	70	101	-30.5	28	36	-21 7
Cash dividends	448	308	45.5	151	92	64 3
Net operating income	698	620	12 6	166	144	14 9

Quarterly Banking Profile
December 31, 1993

Wyoming

Aggregate Condition and Income Data, FDIC-Insured Commercial Banks

(dollar figures in millions)	Preliminary 4th Qtr 1993	3rd Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Number of institutions reporting	55	56	63	-12 7
Total employees (full-time equivalent)	2,318	2,334	2,303	0 7
CONDITION DATA				
Total assets	$5,154	$5,060	$5,037	2 3
Loans secured by real estate	1,138	1,114	962	18 3
Commercial & industrial loans	501	509	507	-1 1
Loans to individuals	584	574	543	7 6
Farm loans	305	321	264	15 4
Other loans & leases	53	59	61	-14 1
Less: Unearned income	3	3	2	45 7
Total loans & leases	2,579	2,574	2,336	10 4
Less Reserve for losses	45	44	41	7 7
Net loans & leases	2,534	2,530	2,294	10 5
Investment securities	2,009	1,929	2,066	-2 8
Other real estate owned	8	10	14	-41 2
Goodwill and other intangibles	6	8	11	-39 2
All other assets	598	583	652	-8 4
Total liabilities and capital	5,154	5,060	5,037	2 3
Noninterest-bearing deposits	706	675	691	2 2
Interest-bearing deposits	3,808	3,749	3,707	2 7
Other borrowed funds	126	123	151	-16 9
Subordinated debt	0	0	0	NA
All other liabilities	33	34	32	3 8
Equity capital	481	479	455	5 6
Loans and leases 30-89 days past due	27	30	40	-31 2
Noncurrent loans and leases	24	26	29	-18 3
Restructured loans and leases	6	6	8	-27 0
Direct and indirect investments in real estate	0	0	0	NA
1-4 Family residential mortgages	626	628	553	15 4
Mortgage-backed securities	579	583	674	-14 0
Earning assets	4,737	4,596	4,571	3 6
Long-term assets (5+ years)	1,155	1,138	1,094	5 6
Volatile liabilities	649	641	689	-5 7
Foreign office deposits	0	0	0	NA
Unused loan commitments	500	465	439	14 0
Off-balance-sheet derivatives	0	0	0	NA

INCOME DATA	Preliminary Full Year 1993	Full Year 1992	%Change	Preliminary 4th Qtr 1993	4th Qtr 1992	%Change 92 4-93 4
Total interest income	$353	$371	-4 7	$88	$91	-3 1
Total interest expense	132	158	-16 4	32	37	-11.7
Net interest income	221	213	3.9	56	54	2.7
Provision for loan losses	8	14	-46 0	1	3	-60 7
Total noninterest income	43	38	13.2	12	10	17 2
Total noninterest expense	163	166	-1.6	45	43	4 6
Securities gains (losses)	2	3	-44 4	0	0	16 1
Applicable income taxes	30	22	33.2	7	5	26 3
Extraordinary gains, net	0	0	102 6	0	0	106 7
Net income	66	52	26 5	15	12	18 6
Net charge-offs	4	13	-65.9	1	5	-78 9
Cash dividends	40	25	58 2	17	10	73 6
Net operating income	65	50	29 2	15	13	14 3

OPENING STATEMENT BEFORE THE COMMITTEE ON SMALL BUSINESS
THE HONORABLE MARJORIE MARGOLIES-MEZVINSKY
MAY 18, 1994

I join the Chairman in welcoming this morning's witnesses. As we continue the current series of hearings on reauthorization of the Small Business Administration programs I applaud the Chairman and his staff for doing an excellent job in providing us with the opportunity to have a careful look at these programs and their implications for small business.

As the Chairman knows, I have a particular interest in these programs because my district has many successful small businesses that have benefited from the programs of the Small Business Administration.

I have a particular interest today in the Management Assistance programs that we will discuss with the first panel. I have spoken with the Small Business Development Center that serves my district and they have expressed their concern with the proposed new fee. I, too, am concerned with the impact on the SBDC of this new proposed fee and am looking forward to learning more concerning this issue and its possible impact on small business.

I commend the Chairman for his efforts today. Thank you.

STATEMENT OF
U.S. REP. JAN MEYERS
HEARING ON
SBA REAUTHORIZATION

MAY 18, 1994

Mr. Chairman,

Thank you for holding this further hearing on the proposed reauthorization of the Small Business Administration. Today we will be hearing from the organizations that provide much of the "hands on" assistance to small business. SCORE, Small Business Development Centers and the Small Business Institutes are the front-line providers of counseling and information for small businesses. They are a key component in the Small Business Administration's efforts to provide aid and assistance to small business.

The current Administration proposal recommends establishment of "one stop centers" to help small business access all the help available. This proposal has merit, but I hope the SBA will give serious thought to the possible negative effects. By rolling programs together and consolidating too much we may actually restrict access to small businesses by severely reducing the outlets for this assistance. I support streamlining government, but we must remember our mission. The SBA is more than just a financial assistance organization, it has a definite duty to provide education and counseling to small business.

Mr. Chairman, I also want to welcome the second panel who will be testifying on help they have received through the SBA's disaster loan program. This is a program of great interest and importance to many of the members on the Committee, myself included. This past year many of our districts were severely affected by flooding and earthquakes and we all appreciate the excellent response from the SBA. I hope the panelists will bear out our confidence in the disaster program and again I thank them for coming.

OPENING STATEMENT OF
CONGRESSMAN BILL ZELIFF (R-NH)
Small Business Committee
May 18, 1994

Mr. Chairman, I want to thank you for calling today's hearing on the SBA authorization proposals currently before the committee. The deeper evaluation permitted by this series of hearings has been very beneficial as we begin to make tough programming decisions.

I am eager today to hear the views of the witnesses on the importance of the Small Business Development Centers. SBDC's play a vital role in promoting small business development and entrepreneurship. My experiences with the New Hampshire SBDC have been extremely positive.

By providing practical business-skills training and counselling, these Centers have been a lifeline to our communities. Existing businesses wishing to grow, new businesses, individuals impacted by layoffs, and businesses involved in defense conversion have all placed demands on SBDC's -- and they have responded.

There are many questions concerning how best to keep our commitment to SBDC's within a tight budget. One proposal is to impose fees for counseling services and to reduce the SBDC appropriation. I believe this is a mistake.

Before we act, we need to examine closely the potential negative effects of counselling fees. I also believe that rather than cut the SBDC budget, we should consider seriously raising the funding base from the current level of $100,000 to perhaps $200,000.

I look forward to hearing the testimony of our witnesses.

CHATSWORTH
TRUCK
CENTER, INC.
dba:

Murray's

20944 ITASCA STREET
CHATSWORTH, CALIFORNIA 91311
(818) 882-6410 (800) 794-6410

TESTIMONY OF
CHATSWORTH TRUCK CENTER INC.
DBA: MURRAY'S

GIVEN BY
KEITH T. ACKERMAN
VICE PRESIDENT

January 17, 1994

Disaster 2697 - A day that changed families and businesses forever in Southern California. The day of the Northridge Earthquake.

Contained within these pages are accounts of my dealings with the Small Business Administration and all the trials and tribulations of putting my business "BACK IN BUSINESS" after the earthquake.

My home suffered damages that were horrible. All the block walls that surround my property were destroyed. My chimney had extensive damage and needed to be completely replaced. Patio concrete slabs were cracked and offset from the ground movement. The wave that was created in my pool left a water mark 20" up on my garage and house. Many of the walls had plaster and stucco cracks. All these things can be repaired but most upsetting was the loss of personal belongings that had significant meaning in our lives.

By the time I had gotten to my busines I saw the devastation by flashlight at night. Our dealership sits on 66,000 square feet of commercial land. We have 3 buildings on the property and needless to say the damage was much more than I had anticipated. Our stocking inventory of 300 thousand plus dollars was in a pile 3 feet thick. There was not one shelf left standing. The City had shut off water mains but at this point we did not know we had broken water lines. When the water department turned the water back on the Parts Department had been flooded destroying 75-95% of my inventory.

The customer's trucks and equipment in the service department had fallen from the jack stand. Transmissions that were being rebuilt toppled off the work stations. Landing gear on 64,000 lb trailers had been bent like match sticks from the continuous hammering of the earth. Our 3 overhead bridge cranes werepicked up and set back down crooked on their rails, rendering them inoperative. The roof collapsed in a 13,000 square foot building with concrete tilt-up slabs that were fractured and leaning way out of place.

The loss of inventory and destruction to the facility was something I had never seen nor could imagine. I didn't think I could possibly rebuild or overcome in any way - there was just too much damage. In three years I had built up a 2.5 million dollar a year company and in 45 seconds I lost it all. I WAS OUT OF BUSINESS.

On the 18th of January I got the phone numbers for FEMA and the SMALL BUSINESS ADMINISTRATION. I calledFEMA first and received a control number from Betty Jamason. This was myfirst contact with an agency that might be able to assist with my damages. Betty was kind, considerate and understanding. She informed me that the application for assistance would arrive in 2 weeks. This was UNACCEPTABLE. I needed help NOW. She told me of a Disaster Relief Office in Pasadena where I could pick up an application for FEMA and SBA. Here I met Sebron Humphreys with the SBA. Sebron's professionalism and knowledge of the SBA was amazing. His briefing on the application procedure were concise, he covered all the steps and different offices I would be dealing with. He conveyed encouragement and fortitude that allowed me to continue to the next step of completing the needed paperwork. I returned the next day with all the items to submit my application. Sebron ensured me of a timely response to the application. His reassurance in the SBA process relieved me of my skepticism. I looked forward to a fast and expeditious process.

Loss Verfication was the next step in moving forward to complete the process for SBA. Bill Standard, the Loss Verifier was at my house at 0700 hours on the 30th of January. He noted all the damages to my house. From there we drove over to the Dealership where he did a complete and thorough inspection of the facility. His notes were precise and accurate. I knew I was in good hands.

Each time I had a different person contact me about my loan, I was taken to another tier in the application process. I'm met not with bureaucratic red tape that is associated with the government, but with people who are taking a personal interest in me and my business. I was amazed at the efficiency of this system.

Ted Colan called me the evening of Feb. 2, 1994 to introduce himself as the loan officer. He was a pleasure to deal with. Ted and I spoke at great length about the loan application, my financial position personally and on the business, both prior and post to the quake. He required more needed documents and information both for the home loan and the business loan. He received all the information needed to make the final decisions within 3 days. Ted showed a personal touch that was foreign to me, by asking me for my input into the package. Needless to say I was amazed again at the personal attention given by all these people. For Ted to call my Dealership 6 times in one day was not unusual. He wanted me to know everything that was going on with my package and how they arrived at the loan amounts for both physical and economic injury.

The next step was the Legal Department. I envisioned that this fast rolling ball was going to stop right here. A woman by the name of Rae Taylor called to inform me of the status on my loan package. At this point with all the personal attention that I was receiving I felt like I was the only person applying for a loan. What about the 10's of thousands of other people applying for loans, who's handling their packages?

Rae Taylor is what I refer to as an expediter. Common sense, efficiency, intelligence, reliability and courtesy are what comes to mind when describing the professional and personal care she gave me. Her requests for additional information were accomplished through fax or express mail. Time was of the utmost importance here. The Dealership which employs 22 people had been closed for 2 weeks and was close to a total shutdown and bankruptcy.

It was Rae Taylor's attention and expeditious handling of my loan package that got our first allotments of $5,000.00 for Economic injury and $10,000.00 for Physical damage. If it were not for Rae getting these funds released, I would not be in business today. This 2.5 million dollar a year company would never see the 5.5 million dollar a year goal for 1994. It got the company off its face and back on its feet.

The subsequent allotment of funds came in a timely manner which allowed me to restock my inventory and get my customers trucks and equipment back on the road.

Eric Plummer, the lawyer who oversaw my loan package was professional and courteous. With this team of Eric and Rae in the Legal Department I was able to get through this disaster. Not only my business but all the victims of the quake that have commercial trucks and needed our Dealership to service their equipment.

Frank Taylor and Richard Shaw took good and prompt care of my requests for additional funds. Due to their ability to understand and comprehend the workings of a commercial truck Dealership, my requests were in and out in one day. Once verfication was completed, I received the checks within 6 days.

Through out the process I have found the telecommunications to be in good condition and without fault. Operators were quick and efficient in putting calls through, extension numbers were well documented and message taking always got a call back.

The domino theory was a realism in our predicament. If I could not repair the commercial trucks in the quake area, the operators of the equipment could not be as effective in the clean up response. Through long hours and back breaking work of my employees and the help of the SBA we overcame our handicap.We restocked our inventory, serviced our customer base and supported all the efforts to get our community back to normal operations.

It is now 4 months later that I'm able to sleep at night knowing that my Dealership is intact and able to open for business every morning.

In closing, I would like to send a message of GREAT GRATITUDE to theSmall Business Administration and applaud their support to all of the Northridge Earth-quake victims, the employees at Chatsworth Truck Center, Inc. and to my family.

DUE TO THE PROFESSIONAL AND CONTINUED SUPPORT OF THE SMALL BUSINESS ADMINISTRATION, SMALL BUSINESSES WILL GET THE CHANCE TO GROW INTO LARGE CORPORATIONS AND FOR THIS I APPLAUD YOU.

ASBDC Association of Small Business Development Centers

Statement

of

LYLE ANDERSON

State Director

Washington Small Business Development Center

and

President

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

before the

House Small Business Committee

May 18, 1994

Mr. Chairman, Members of the Committee, my name is Lyle Anderson. Since 1985 I have been the State Director of the Washington State Small Business Development Center which is located within the Washington State University College of Business and Economics. I am very pleased to have this opportunity to present what I view as some very important information on the progress and future of the Small Business Development Centers.

After providing you with a brief overview of the program, I would like to comment on the Administration's proposal for continued SBDC program funding.

The SBDC program is a unique partnership between the federal government, represented by the Small Business Administration, state government, higher education and the private sector. The SBDC is the nation's premier (preeminent) business development and technical assistance service delivery system. Comprised of 942 centers located throughoutt the U.S. and including Puerto Rico and the Virgin Islands, the SBDC provides intensive one-to-one counseling and business skills training. Many state programs have sophisticated electronic services providing small business owners and operators with state of the art access to information and expertise critical to an individual businesses' success.

According to an independent study led by James J. Chrisman, University of Calgary and Frances Katrishen, University of South Carolina, 1991 SBDC clients reported creating almost 65,000 new jobs. The job creation rate for established businesses was an impressive 6.49 percent compared to overall U.S. employment growth of .58 percent. These same businesses generated more than $288,000,000 in new taxes thereby establishing a SBDC program cost/benefit ratio amounting to 2.6 to 1. These clients also established a strong correlation between SBDC services received and client growth and development.

As these statistics demonstrate, the SBDC program is a strong economic development tool. The program does not exist to conduct research, form committees or establish task forces. Borrowing from the Nike Corporation's slogan, we just do it.

Given the contribution the SBDCs can make to economic growth, the next question is "Do the SBDCs have the capacity to meet the needs of the small business population?"

The short answer is no. SBDC services are provided to less than two percent of the U.S.'s small businesses. The demand for business assistance from those in business, those starting a business, businesses and individuals affected by downsizing in the private sector and defense conversion is far more than the existing SBDCs can handle. In this context, SBDCs have had to manage demand and ration their business counseling services. Methods to mange demand vary from depending primarily upon word-of-mouth and referrals for recruitment of clients, to systems to refer clients to alternative service providers. To ration consulting assistance, SBDCs have developed and deployed a variety of screening devices. The objective of these screens is to allocate consulting time to the clients who are prepared to contribute their time to and get the most from the counseling engagement. In that context, the screens are generally educational. A preventure client, for example, might be required to attend a business feasibility workshop, complete an assessment, or gather relevant market data prior to beginning the consulting engagement. These screens as well as the utilization of small group counseling have allowed SBDCs to maximize use of their very scarce resources. Still, a large portion of the demand is unmet.

This inability to meet critical demand, even after employing innovative screening and referral techniques, creates the framework within which the ASBDC views the national SBDC program's current budget needs. The Administration proposes to reduce the SBDC appropriation and to require SBDC to charge fees for counseling.

Both actions would significantly impair the program's capability. The proposed reduction, while modest, will stop the ability of each state program to meet its current demand. Small population states, like West Virginia, will experience an even greater gap between the service base and demand; the more than 40 states who are currently at their funding CAP will experience greater resource compression; and new state programs, like California, will be unable to expand.

Charging fees for counseling cuts to the very core of SBDC success. While SBDCs have historically charged fees to cover nonrecoverable costs related to business training, costs associated with the electronic collection of data and outside expertise, the program has steadfastly avoided fees for counseling.

Our clients, whether, ready for expansion, facing retrenchment or exploiting an innovation have one thing in common: they are cash poor. The SBDC program is the only place to turn for the kinds of business development assistance these companies need to succeed. That means jobs; that means growth; that means economic development.

The SBDC's success also depends on funding partners other than the SBA. These other partners, including participating states, universities and community colleges and the private sector, put up more than half of the money to support the SBDC. We believe it is highly unlikely these programs will be willing to continue to support the SBDC if the revenue is to be returned to the federal partner. More likely, they would withdraw their funding or - and it would be just as damaging - would require the SBDCs to increase fees to be returned to them.

Finally, the SBDC program has been viewed by private sector consultants, including business consultants, accountants and CPAs as filling an important gap in the small business service delivery system. If we now begin to charge fees for business development counseling, the SBDC will be viewed, and correctly so, as competition.

As an alternative budget request, the SBDC proposes that fees be dropped and that the funding base for the program be increased from the current level of $100,000 per state or region to $200,000. This budget request addresses the immediate problem previously identified in my testimony. Small population states will now have the funding necessary to support a statewide business assistance program; capped states, some of whom have been at their funding CAP for more than ten years will no longer be faced with the effects of resource compression; and, new states will be able to continue to expand services to meet the present unmet demand.

Thank you.

TESTIMONY OF

MR. KEN BASS

PRESIDENT

THE KITCHEN STORE

CULVER CITY, CALIFORNIA

BEFORE THE

HOUSE SMALL BUSINESS COMMITTEE

JOHN J. LaFALCE, CHAIRMAN

MAY 18, 1994

9:30 a.m.

THE KITCHEN STORE

6322 West Slauson Avenue
Culver City, California 90230
Phone: (310) 839-5213
Fax: (310) 397-1690

Chairman LaFalce:

My name is Ken Bass, I am the owner and President of The Kitchen Store in Culver City, California. The Kitchen Store has been in the business of distributing cabinets for over twenty-five years. The annual sales average is 1.5 million dollars and the business employs 12 people, the majority of whom have been with the company for over 10 years. The Kitchen Store services three different markets; we sell kitchens to the general public, contractors buy cabinets for residential building, and the film industry utilizes kitchen cabinets on TV and movie sets. Three managers are responsible for sales in the different markets.

The entire nation witnessed the devastation of the January earthquake. The media coverage showed destroyed buildings, and reported on the fatalities and injuries. What the media has not reported is the indirect effects the earthquake has had on small businesses, families and thousands of individuals. The physical damage to The Kitchen Store was relatively minor, it consisted of window breakage, broken computers and section of the ceiling fell. However, the indirect damage to the business and the damage suffered by staff has been extensive. The sales manager that works with contractors packed up and moved his family to Nevada after deciding California was too dangerous a place to live. He had been with the company for 12 years. During the earthquake he had to run for safety with his family, as his apartment collapsed around him. The sales manager that works with the film industry lives near the Northridge epicenter, in the small town of Santa Clarita. His home is north of one of the freeways that collapsed. Prior to the earthquake his commute was 90 minutes, after the quake it became a 2 to 3 hour nightmare. The stress related to the lengthy commute has taken an obvious emotional toll on this individual. We have tried to accommodate him by reducing his work week to four days with no change in salary. After 15 years of service we felt obligated to accommodate his needs, however it is an additional financial burden to the business.

The Kitchen Store clients involved in the film industry are typically from small production companies, many of which are near the San Fernando Valley epicenter. In some cases, earthquake damage caused production to cease. The Kitchen Store is near two major freeways. The collapse of the 10 freeway and damage to other freeways has resulted in a decrease in customers who patronize the store from word of mouth referrals or who are responding to advertisements. A new kitchen is a luxury not a necessity and people had more pressing needs to address.

Immediately after the disaster we realized we needed to seek financial assistance in order to survive this period. Although it is possible that the tremendous need to repair and construct buildings will increase business, a turn around will take up to one year. If the experience of the 1993 firestorms is a reasonable gauge, construction will not even begin for six months. In most residential buildings kitchens are built after the basic structure has been completed.

To maintain the business I sought an SBA loan one week after the disaster. I waited six hours in line just to receive an appointment. After I completed the necessary paperwork I was assigned a loan officer in Sacramento. Less than thirty days later I was notified that my application had been approved. This gave me great hope that the check would soon arrive. Unfortunately, this is the point when the process seemed to come to a halt . Sixty days more would pass before I actually received the check. I don't believe anyone actually understood what caused the delay. Although to some this might not appear to be a long delay, when your income has stopped and your expenses continue, a two month delay can seem like a lifetime for a small struggling business.

I would like to acknowledge and compliment the way the SBA and FEMA staff handled my particular situation. In spite of working long hours processing thousands of applications, I found the staff to always be patient and supportive, even returning phone calls. However, I do not understand the reason for the delay in processing a check once the application has been approved. It is clear to me that this part of the system should be examined and corrected if possible.

Thank you for the opportunity to speak before you today.

Kenneth Bess, President
The Kitchen Store
6322 West Slauson Avenue
Culver City, California 90230

THE SMALL BUSINESS INSTITUTE OF THE U.S. SMALL BUSINESS ADMINISTRATION

TESTIMONY BEFORE THE UNITED STATES HOUSE COMMITTEE ON SMALL BUSINESS

DR. JOSEPH C. LATONA
THE UNIVERSITY OF AKRON, AKRON, OHIO
PRESIDENT, SBIDA
MAY 18, 1994

WHAT IS SBI?

The mission of the Small Business Institute is to provide entrepreneurial education, strengthen the small business sector of the free enterprise system, enhance the small business environment, and support economic development through small business teaching, consultation, and research with small businesses and communities by college and university students under faculty supervision. A practical way to describe the SBI is by its ultimate objectives, which is to say:

"SBI is Education and Business Consulting Experience for Tomorrow's Leaders and Business Assistance for Today's Entrepreneurs."

SBI provides three sets of broad activities to the local business community. These activities are particular to the college and university situation and were selected to maximize the contribution to the small business community from academe. The activities are consulting, research and training.

SBI uses student teams of senior level or graduate business students, under faculty supervision, to accomplish in-depth consulting projects that analyze the company and its specific problems. The student teams create and present to the managers of selected small firms a set of recommended strategies or operational techniques to resolve the specific business problems.

In the teamwork process for the selected firm, a SBI student team will conduct market, economic and industry analyses to assist a firm. Similarly, the collective research of teams and the supporting faculty members is made available through the Small Business Advancement National Center to support other faculty and teams. Opportunity and understanding is created by SBI research.

Training is accomplished through a spectrum of college level courses for university students that emphasize entrepreneurship as an alternative career opportunity as well as the fundamentals of operating a business. College courses are also made available to business owners and community leaders. Similarly, seminars and workshops are sometimes included in the SBI program when SBDC and SCORE resources are not available in the area.

SBI led the effort to create a Memorandum Of Understanding (MOU) between the three SBA resources (SBI, SBDC, and SCORE) that prohibits competition and promotes cooperation. Indeed, SCORE counselors sometime serve as mentors for the student teams. SBDCs and SCORE sometimes nominate businesses for the in-depth SBI consulting and research projects which they cannot accomplish. Similarly, SBDC and SCORE counselors sometimes follow up with a client to assist implementation of SBI recommendations after the SBI team has released the client.

Even though there is an MOU and the three SBA resources cooperate in the field, we must note that the SBI services are totally different from services provided by the SBDCs or SCORE program. SBI projects are in-depth, semester long research and consulting projects that draw upon many resources to provide the client a comprehensive consulting report that is impossible for the other resources. The SBA MIS report for the fourth quarter of FY 93 shows that SBI projects averaged 119 hours while SBDC projects averaged 5 hours and SCORE projects were 2 hours.

The SBI client receives both thorough written and oral reports concerning the consulting project. In addition, the entrepreneur is eligible for follow-up services from the other SBI resources–SCORE and the SBDC–in the field.

The SBI services are completely confidential for the client. All that is required of the client is time and cooperation.

SBI is a cooperative Grant Program between the US Small Business Administration and about 550 schools, colleges and universities across the country that provides special education for students, opportunities for faculty, and that brings a special consulting program to small businesses in the many local communities. Most SBI projects are completed for small firms, but with prior SBA Regional approval SBI may conduct special economic studies for a community or a specific region in the SBA district. These special projects are also far reaching research and consulting work that bears great fruit for the community or region.

IMPORTANT SBI IMPACTS

- The Federal budget for FY 93 provided for 6030 small business cases. The budget for FY 94 provides for 6000 cases. The FY 94 budget is three million dollars.
- Expansion of many small businesses into international trade. Actually, in FY 93, two percent of the cases were to expand international trade.
- 1,250,000 hours of faculty-guided counseling are provided to small business clients by SBI each year. Private consulting at this level might cost $40.00 hour. But most of our small business clients could not afford this private consulting. This free consulting is valued conservatively at $50 million.
- More than 12,500 students—tomorrow's leaders—participate in the program annually. These young people are exposed to the entrepreneurial spirit, opportunities in small business, and the requirements for jobs.
- The 550 schools provide in-kind support of approximately $5 million per year. This includes office space, electronic equipment support, clerical work, copy service, telephone, FAX, etc.
- Free consulting provided by the faculty members in support of the SBI cases at fair market rates would cost more than $12 million annually.
- From this set of factors we can calculate the SBI leverage for its three million dollar budget:

Faculty guided student consulting	50,000,000.00
School in-kind support	5,000,000.00
Free faculty consulting in support of their SBI teams	12,000,000.00
TOTAL	$70,000,000.00

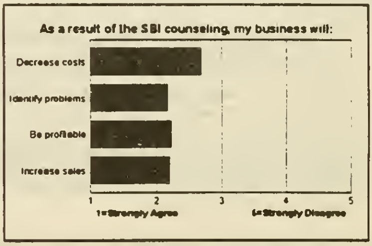
- The SBI program **leverages** its **$3 Million** Federal budget by a **factor of 23.3** to approximately **$70 million annually.**

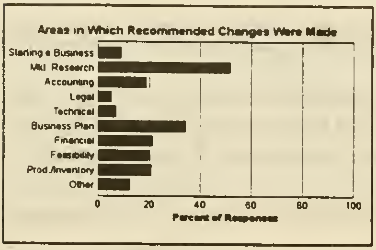
- In FY 1992, the SBA national office conducted a survey of former SBI clients across the country. One of the questions asked the clients to put a value on the SBI consulting project completed for them. These statistics are taken from that report and provide a customer's view of the SBI program's value. Our clients give us a **multiplier factor of seven.** This factor is still spectacular!

Clients	Percentage citing this value	Average Value	Program Value
6,000	37.9	500.00	1,137,000.00
6,000	58.2	5,000.00	17,460,000.00
6,000	4.0	10,000.00	2,400,000.00
		Grand Total	**$20,997,000.00**

Taken either way, the SBA and the nation get a truly great return on investment from this tremendous student-faculty program at the community level across the country. The SBI students and faculty are helping small businesses all across the nation, and we are proud of that fact.

Other important facts taken from the FY 1992 SBA survey are shown here. Each chart shows SBI's success with its clients. This first chart shows that all the respondents more than agree that as a result of the SBI team their business will "decrease costs", "identify problems", "be profitable", and "increase sales". Small businesses that do these things are going to be successful. This means more jobs, more tax payments and economic growth.

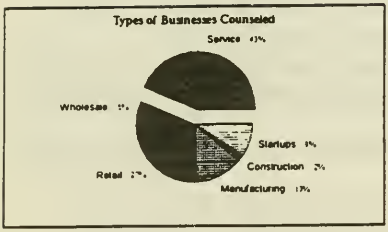


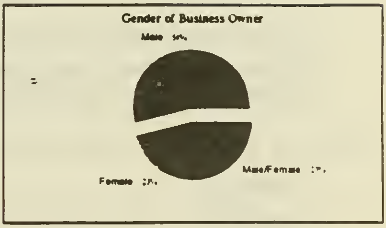


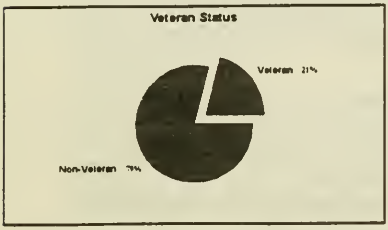
This chart shows the many areas where student teams made recommendations and the managers of firms have actually made the suggested changes. Six important business decision areas standout; i.e., market research, business planning, financial, feasibility studies, production and inventory control, and accounting. The teams have a significant capability across the most important business areas and can help firms.

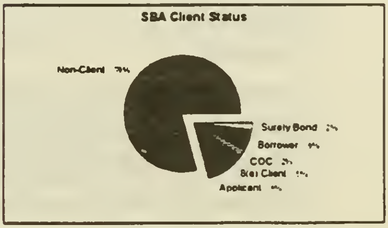
The charts on the next page show that SBI helps all kinds of businesses, regardless of organizational type, type of industry, ownership, educational background or gender. The SBI directors across the country work carefully with the SBA district officials to serve the business community. The last chart shows that many agencies that support small businesses also recommend those smaller firms to the SBI as cases. SBI is a national resource that serves many fine local business communities.

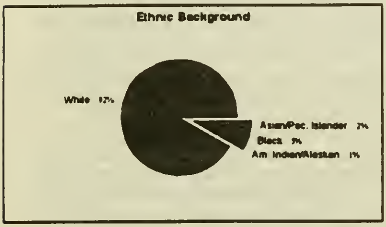
1992 SBI CLIENT PROFILE

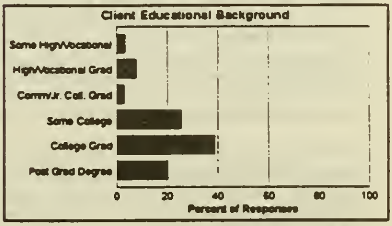


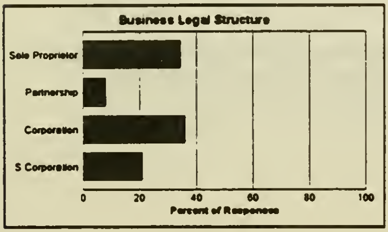


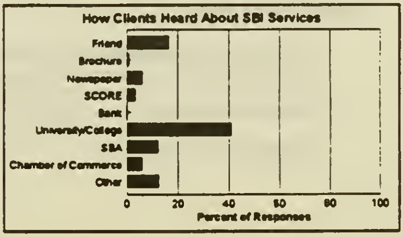












Source: Small Business Administration; Business Initiatives, Education, and Training; MIS FY92 Report and Small Business Institute Client Survey, conducted by SBA, FY 92

Everybody loves a winner and the SBI program is a winner. For example:

> Students win because of the fine education and business experience they receive.
>
> Clients win because of the truly outstanding consulting project they receive for free.
>
> Universities win through the great public exposure the institutions receive.
>
> Even the taxpayers win in the end by the economic activity that comes from better small businesses and the better trained former students in our midst and perhaps in entrepreneurial roles.

TYPES OF ASSISTANCE PROVIDED BY SBI TEAMS

- **Accounting**
- **Computers**
- **Financial**
- **Management**
- **Marketing**
- **International projects that support exporting**
- **Human resource management**
- **Combinations of these functional services**
- **Special economic projects authorized by the SBA Regional and District offices**

It must be emphasized that the SBI projects are more than just advice in these business functional areas. The SBI projects actually go into great detail to show the managers of small businesses how to design and implement an accounting system, or select and install a computer and automated systems. Market research studies are completed and provided to the client with conclusions and recommendations for implementation. Our international projects provide points of contact and correspondence to include procedures, and steps for implementation. Since many of the SBI projects are quite comprehensive, the manager/owner will get recommendations concerning more than one of the business functions.

Merit must also be drawn to the special economic projects authorized by the SBA Regional and District offices. These economic studies are quite meaningful to the local community and its economic development plans. Entire communities or smaller economic regions have been studied to provide the basis for economic development. Although these studies are quite different from the business studies they receive the same comprehensive efforts and support.

TYPES OF CLIENTS

- Existing small businesses from micro firms to larger small business with rapid potential for growth: service, manufacturing, agriculture, retail, wholesale, or construction.
- Rural communities
- Exporters and importers

- High technology firms
- Inventors
- Women, minority and veteran entrepreneurs

Most SBI directors and schools work closely with the SBA district officials to serve the appropriate clients in that district and local economic/business area. Similarly, most SBI directors attempt to conscientiously create a mix of available clients for their student teams. It is good sense to serve a broad spectrum of clients and we do that across the country.

DISTINGUISHING CHARACTERISTICS OF THE SBI PROGRAM

- SBI is educational for the clients, the students and the faculty. For the students and faculty much of the education process takes place in the formal classroom setting. While this education process supports the SBI projects, it is not costed as part of the SBI program. The results of this education process are impossible to measure and very long-term. Who knows when the entrepreneurial spirit kindled in the classroom will emerge into a viable, growing business that will significantly contribute to society. Every long-term SBI director has his or her favorite examples from the past. It is a great program for all concerned.

- SBI is unique among the three SBA field resources in that all SBI projects are all long-term, in-depth, comprehensive analyses of the client companies. SBI projects are generally over 12 to 16 weeks. Both SCORE and the SBDC projects are generally short-term and oriented to a specific problem. SCORE and SBDC projects are generally limited to a few hours. As shown above the comprehensive effort required for the SBI project is more than twenty times that of the other two resources for an average project.

- SBI is unique among the three SBA field resources in that all SBI projects result in a major written report that details the recommendations and justifies the solutions proposed to the client. This written report is presented by the student team with faculty participation to help the client understand the recommendations and steps for implementation.

- SBI is unique among the three SBA field resources in that all SBI projects can and do often draw on the resources of both the SBDC and SCORE. Typically the reverse of this is not true. There is cooperation but SBDC and SCORE seldom call on the SBI resources to help in their short-term projects.

- A twelve hour SBDC project including overhead charges costs the government nearly as much as the averageSBI project.

SBDC:	12 hrs X $25.00 + 29 percent overhead =	$387.00
SBI Project	150-350 hours (regardless of total time) (Fixed fee)	$500.00

  SCORE work in the field is nearly totally free except for overhead and minor travel.

- SBI is the free use of thousands of hours of faculty time across the country. This is an immense national treasure contributed to the local business communities. SBDC does not have this resource.

- **SBI is not a duplicative effort of SBDC and SCORE. Here are examples of this difference:**

  * SBI is located in many places where the SBDC and SCORE programs are not available.

  * The SBI is more, much more, than just counseling. SBI spends more than twenty times more work with the client. The numbers were presented earlier.

  * SBI has more human resources available through the universities at no additional cost. These human resources include the total university faculty and administrative assistance and support. Everyone will help the SBI team. Particularly, this is true in our many smaller schools where most people know and understand how important the SBI program is to the students, the clients and the community.

  * SBI exposes the students to entrepreneurship as a career alternative and by involving them SBI helps develop better future small business owners.

  * SBI has great physical resources available through the universities and colleges at no additional costs. For example, these include access to faculty other than SBI directors for consulting, the libraries, computer labs, and other equipment.

- SBA sees itself as moving more to a loan guarantee agency with reduced emphasis in the field for business development and managerial assistance. Loans do not solve most small business problems. Managerial assistance is what solves small business problems in the field. Flooding the market with more loans without adequate managerial assistance will mean more defaults. SBI provides the best in-depth assistance possible at a tremendous return to the government for its investment.

- Over the last four years SBA and SBI have built the Small Business Advancement National Center (SBANC) at the University of Central Arkansas. We have been working to centralize the set of knowledge for the small business consulting process. This center has on-line library and research support for faculty, teams, and others interested in research to support small business operations. The center director is testifying separately, and the SBI supports his efforts. This center must be maintained with the SBI.

- Moving the SBI program to the SBDC is not a cost reduction, rather it is a transference of costs. Indeed, if the SBI program is moved to the SBDC, our program will have to be reduced or the funding will have to be increased because the SBDCs have to pay overhead. The costs of completing the SBI case (travel, copy service, computer time, etc.) will still be there. More important though is the fact that moving SBI to SBDC requires a university or college to put its academic programs under supervision of non-academics in the SBDC. Many of our schools will not even consider this action. Sixty percent of our current schools have little-to-no contact with the SBDC.

THE HISTORY OF SBIDA

Early in the history of SBI, the directors formed a professional organization to promote, enhance, and support the SBI program. The SBIDA has been and still is a strong advocate for improving the national SBI program.

The Small Business Institute Directors' Association (SBIDA) was founded in 1975 by the directors of 37 Small Business Institutes (SBI) from across the country. Those SBI directors, then as now, needed to share information, ideas, case and consulting procedures, and they found that doing so made their individual efforts with their students and their small businesses more successful.

Today, SBIDA's 520 members reach far beyond the original 37 members. These SBI directors, along with other SBIDA members (other educators and administrators) share one common overriding desire; a burning concern for the success of the free enterprise system world wide through the continuing success of small business! SBIDA is a member supported association. No government funds are used to support SBIDA.

SBIDA provides the same function today that it did in 1975. As a faculty organization, it provides forums and venues for the exchange of ideas applicable to small business. Yet the business processes used in the 1990s are far more comprehensive than those used twenty years ago. Keeping up-to-date is more important now than ever before.

SBIDA provides the organized national voice for the SBI directors from across the country. It has been the continuity and driving force to improve the SBI program director training, program quality, and consistency of the program over the years.

SBIDA PROVIDES

Conferences at the regional and national level with presentations to improve small business management, program consulting processes, and program quality.

Publications that extend the research and knowledge of small business. The ***Momentum*** is our quarterly newsletter for members and others interested in our program. The bi-annual ***Journal of Small Business Strategy*** translates research into applicable processes for educators and small business managers. The quarterly ***Journal of Small Business Management*** provides an outlet for sophisticated research concerning many small business and international operations. Our annual conference ***Proceedings*** provide a wealth of ideas for small business consultants (students and faculty)and owners.

Advocacy by the officers and selected members keeps Congress and other national leaders informed of critical activities and the needs of small business. Advocacy helps us guide the continuing improvement of the SBI program through our partnership with the SBA and the Congress.

Recognition is provided for our members, students and others through several annual regional and national programs.

CURRENT OBJECTIVES OF SBI AND SBIDA

Even though the SBA Administrator has recommended to the Congress that the SBI program be abolished, we have established plans for the years to come, and we are hopeful that the Congress will perpetuate the SBI program.

We believe our program of consulting, assistance and training to small businesses across the country and particularly in the rural areas supports the objectives of the Clinton Administration. Therefore, we request your support to achieve these objectives:

1. Increase our case budget from 6000 to 7000 cases for the Fiscal Year 1995. This increase would provide for the addition of new schools across the country (75 schools @ 8 cases) and a small increase of cases for our best existing programs (40 schools at 10 cases).

2. A sum of $300,000.00 to initiate additional training opportunities for very small businesses at local levels. These training programs would be conducted by students and faculty at the Micro business level. This first year of a formal program would lead to 300 training events in separate communities across the land. Three hundred training events with an average attendance of 20 persons per event means excellent training for an average cost of $50.00 per person. These training events would be in areas where SCORE and SBDC service is not available or would be in conjunction with the other two resources in accordance with the MOU.

3. An increase in the price of a SBI case from $500.00 to $600.00. This would increase the Small Business Institute budget line from $3,800,000.00 (cases and training) to $4,500,000.00 for 7030 cases and the training. At the new rate per case and including the training funds, everything else held constant, our **leverage factor** remains a remarkable **15.6** (70 million/4.5 million). The SBA and the nation get a truly remarkable return on investment from this tremendous student-faculty program at the community-grass roots level across the country.

4. SBIDA has established a Five-Year SBIDA Strategic Plan that calls our members to higher actions. The preamble of the plan calls for SBI and SBIDA to:

   a. *Act as a vehicle to improve and expand educational programs for small business in colleges and universities.*

   b. *Enhance the relationship between faculty of schools with small business programs and the business community in developing educational programs that meet community needs.*

   c. *Encourage the relationship and cooperation between faculty of schools with Small Business Institutes and other organizations–academic, professional, and service–concerned about the small business community.*

   d. *Enhance the traditional activities of SBI–consulting, research, and education.*

The SBIDA plan highlights these concepts as the foundation for six specific objectives that are supported by several specific strategies. SBIDA's distinctive professionalism at the local, regional, national, and international levels shall be enhanced by better educational courses, enhanced assistance and service to the small business community, improved relations with all SBA resources and better organizational management. SBIDA will work to increase the national SBI budget to support existing cases (7,000) at $600.00 per case. More effort will be expended to reach more SBA priority cases, such as 8A cases and firms owned by the disabled, veterans, minorities, or women.

Objective One: Continue full utilization of Federal funding including completion of all authorized cases with high quality SBI reports.

Objective Two: Deliver quality educational programs with college level courses that offer entrepreneurship as a career alternative and that teach the fundamentals of management for small businesses.

Objective Three: Increase the ratio of SBI schools with directors holding membership in SBIDA and encourage others interested in small business counseling and assistance to become members.

Objective Four: Work towards maintaining and increasing financial resources available to SBI.

Objective Five: Continue the special efforts to reach SBA priority cases and clients who are disabled, minority, veterans, or women owned firms.

Objective Six: Build public awareness of the SBI programs and small business issues and establish SBIDA and its members as experts concerning these issues.

SBI RECOMMENDATIONS TO THE COMMITTEE CONCERNING THE SBA PROGRAM

SBI disagrees completely with the SBA Administrator's previous budget testimony to the Congress that would abolish the SBI program in FY 95. We believe our high quality program of education, consulting, assistance and training to small businesses across the country and particularly in the rural areas supports the objectives of the Clinton Administration. Therefore we have these specific recommendations:

1. **Maintain the SBI program as a separate budget line item in the SBA budget and increase our case budget from 6000 to 7000 cases for the Fiscal Year 1995.**

   Subordinating the SBI program inside the SBDC program is a transference cost that saves nothing and indeed might mean higher costs for a reduced SBI program. Even worse, it marries two incompatible programs. Finally, many schools would not support this merger because it ignores the curricular and education mission of the SBI.

   This case increase would provide for the addition of new schools across the country (75 schools @ 8 cases) and a small increase of cases for our best existing programs (40 schools at 10 cases).

2. **Provide a sum of $300,000.00 to initiate additional training opportunities for very small businesses at local levels.**

   These training programs would be conducted by students and faculty at the Micro business level. This first year of a formal program would lead to 300 training events in separate communities across the land. Three hundred training events with an average attendance of 20 persons per event means excellent training for an average cost of $50.00 per person. These training events would be in areas where SCORE and SBDC service is not available or would be in conjunction with the other two resources in accordance with the MOU.

3. **Increase in the price of a SBI case from $500.00 to $600.00.**

   This would increase the Small Business Institute budget line from $3,800,000.00 (cases and training) to $4,500,000.00 for 7,000 cases and the training. At the new rate per case and including the training funds, everything else held constant, our leverage factor remains a remarkable 15.6 (70 million/4.5 million).

   The SBA and the nation get a truly remarkable return on investment from this tremendous student-faculty program at the community-grass roots level across the country.

4. **Maintain the Small Business Advancement National Center (SBANC) to support SBI program, other faculty research and the teams.**

   SBANC is an integral part of the SBI program. We need it in the field.

5. **Instruct the SBA Administrator to initiate discussions with the SBIDA concerning self governance for the SBI program similar to the SCORE program and report back to the Congress on progress.**

   Self governance for the SBI program similar to the SCORE program would facilitate long term administration of the SBI program, relieve the SBA National Office of some administrative responsibilities and enhance the SBI program in the field. This last thought, enhancement of the SBI program in the field, is a very important argument. The SBIDA officers are ready to move forward with this discussion.

The officers of SBIDA, its members, other SBI directors, students, others interested in research for the small business community, and our clients urge your total support for these recommendations. We have urged these SBI program users to contact the Congress concerning this issue.

SUMMARY

SBIDA is a national treasure that works to fully utilize all Federal funding for SBI and to complete all authorized cases for small businesses across the country. SBI is 550 schools across the land and its national center. SBI must be kept intact. SBIDA delivers high quality educational programs for students and others. SBIDA should grow by increasing the number of SBI directors, case supervisors and others, faculty and staff, interested in small business counseling, research or entrepreneurial activities. Concurrently, SBIDA's distinctive professionalism at the local, regional, national, and international levels shall be enhanced by better educational courses, enhanced assistance and service to the small business community, improved relations with all SBA resources and better organizational management. SBIDA will work to increase the national SBI budget to support existing cases (6000) at $600.00 per case. More importantly, SBIDA will work to increase the annual budget to 7,000 cases. More effort will be expended to reach more SBA priority cases, such as 8A cases and firms owned by the disabled, veterans, minorities, or women. These concepts are the foundation for six specific objectives presented above and our actions and services in the business community.

We, the students, the clients, the faculty, and others interested in building smaller businesses across the country, appreciate your time, your interest and pray for your support in the budget process.

Thank You!

SBI is faculty, students and others assisting small businesses to prosper nationally.

TESTIMONY OF

MR. RONALD LEDERMAN

CHIEF FINANCIAL OFFICER

THE MAIN SOURCE ELECTRONICS, INC.

CHATSWORTH, CALIFORNIA

BEFORE THE

HOUSE SMALL BUSINESS COMMITTEE

JOHN J. LaFALCE, CHAIRMAN

MAY 18, 1994

9:30 a.m.

January 17 - It seemed to be the middle of the night - stark terror - would it never end? - Armageddon? - would the earth stop shaking? - who survived? - what was still viable, what still existed? - no lights - find the portable radio - Oh, My God!.
Never have I experienced any terror equal to that morning; then waiting for dawn ; punchy with excess adrenalin. Now dawn - forget the broken glass on the floor, the flashes of light in the sky, now reality again.

The floor was littered with broken glasses and china. The refrigerator had moved across the kitchen to as far as the icemaker copper waterline allowed. The microwave smashed on the floor. Food, liquor smashed on the floor and carpet.
OK, we're still OK!!!

The radio says to stay off the roads but do we still have a business? Do we and 50 some other people still have a livelihood?

Time to go to the plant - Traffic signals are out. Miles of block walls are down. Finally Chatsworth. Next door, a thin column of smoke trails skyward from a building - the Fire Department must have been called already. Now, at The Main Source great trepidation - Oh, My God!

The Main Source repairs computer sub-assemblies. The bulk of our inventory consists of hard drives, 6,000 to 10,000 at any time. What does the inside of the building look like? Hard drives don't bounce well - utter chaos, from top to bottom - the drop ceilings including all light fixtures had fallen, the racks of product tumbled to the floor, sensitive equipment in piles or lying where it had fallen.
We cried - the result of years of labor gone - What, How?

The earth was still shaking - aftershocks, aftershocks and aftershocks. Was that a 4.2 or 3.8? The employee's ran out of the building with each tremor.

Now it's Tuesday - Cleanup started. Wow - What to keep, what is junk? - Clear the decks.

The post office has collapsed. The roof fell in, no mail, no orders, no checks. UPS, FedX won't come in to the area. Airborne is snowed in God knows where. Try to run a business. No Way. More tremors. Can't sleep. No one can, each shake - more terror.

Do we have a business? What to do? - Cleanup, cleanup.

That sets the scene for our post earthquake recovery attempt. We are told of a seminar being presented to assist earthquake victims - I attend.

The SBA Program is presented - maybe hope. Forms are passed out, phone numbers and a fairly good delineation of what the government can and will do for businesses.

We fit.

Package for SBA is completed and presented at FEEMA Office on Winetka. Package reviewed by SBA representative who makes suggestions for minor changes that were then incorporated into presentation.

We then submitted our package to the SBA. and were told that it was outstanding in form and presentation.

What about bridge loan? - Sure. Two (2) organizations were on the list provided by the stare of California - we chose Hancock Financial. A duplicate package was submitted to them.

Meanwhile, the loss verifier came to our plant and verified the physical loss - damage to equipment, broken drives, etc.

Hancock Financial called to say loan approved - we authorized money to be spent to try to keep the wolf from the door. I call Hancock morning and night when do we get funds - Hanmi Bank is to fund loan - they lost file, etc. - No loan - We still don't know what happened.

SBA in Sacramento indicate file is moving ahead - so slow January - February - March. If we have to wait until August no Main Source. Can we hold out long enough?

Why did bridge loan people (Hancock) tell us loan OK then no??

We stall creditors - Explain that the loan from SBA is forthcoming. We realize the magnitude of SBA, FEEMA task, but focus on our own problems.

Sacramento says loan approved - it takes approximately one (1) month to receive letter of approval.

We're surviving - We will succeed, thanks to SBA, we couldn't have done it without them. Their employees have been supportive, sympathetic and most importantly professional in their handling of both our financial and even emotional problems.

An interesting aside. Equipment leasing has become a popular way of financing the acquisition of equipment. It typically requires a smaller down payment, and has a longer payout period allowing its productivity to more easily pay the period payments, which are also smaller, when due. Typically, at the end of the lease period a small, sometimes token, payment is made and title is transferred from the lessor to the user.

We suffered damage to our leased equipment. Having no earthquake insurance, we applied to the SBA for assistance in repairing or replacing the damaged and destroyed items. Catch 22, title to the equipment belongs to the lessor, the finance company. A check written to them would be used to pay off the lease not to repair or replace the equipment. When we asked our lessors if we could keep the funds and replace the security, the lessors were unanimous in saying no. The problem arises from the fact that no earthquake insurance is required by lessors who lease under the premise that they are covered if the equipment is damaged or destroyed. Several lessors told me that we were required to provide "full" insurance and were shocked to find that earthquakes were excluded.

To analyze the governmental help -re the great quake of 1994 - time was the major problem. January became May or maybe June, before we see funds - a bridge loan - program that would have funded even token amounts would have given us ammunition to use. But on balance, where but the USA does the government rescue us from acts of God.

TESTIMONY OF

MR. JAMES E. SMITH

HOMEOWNER

NORTHRIDGE, CALIFORNIA

BEFORE THE

HOUSE SMALL BUSINESS COMMITTEE

JOHN J. LaFALCE, CHAIRMAN

MAY 18, 1994

9:30 a.m.

NORTHRIDGE EARTHQUAKE

Personal Summary

of

Experiences, Actions, Activities and Observations.

1. Experiences

Earthquake of 17 January 1994, has almost destroyed a viable middle class neighborhood of a 63 house tract built in 1963/64. A number of `PLANK OWNERS' are the original owners who have raised and educated their children in the surrounding schools. Adjacent neighborhoods have suffered as much or more damage.

I am only addressing our Area because of first hand knowledge of the area and the damage as result of the earthquake. Majority of the houses were selling in the $275,000 to $450,000 range in early January 1994.

From our standpoint the estimates to rehab our house went from $115,000 to $173,000. Most of the two story homes are in this same figure or are to be completely leveled. These conditions have and are requiring some very difficult and traumatic decisions on the part of the home owners. In our case it took three weeks for us to accept the fact that our home for 32 years was a mess. Some long time neighbors have not yet accepted that fact.

A realtor who is very familiar with this end of the San Fernando Valley told me that she expects to see between 25% and 40% of the homes in the earthquake area to be in foreclosure actions by mid-summer. Caused by unemployment due to employers going out of business or relocating out of the Area and some home owners are overextended in Home Equity Loans.

2. Actions

In trying to come to terms with our situation, I have been in contact with our insurance company, Office of the California Insurance Commissioner, local elected or appointed officials, contractors, FEMA, SBA and our bank. Our insurance company agent, an individual who handled my Fathers business for approximately 40 years and ours for 32 years, was of no help.

Insurance contacts, (agents, adjusters, underwriters, and the California Insurance Commissioner), number 48 of which 8 are responses from the insurance company or representatives.

Local Officials/Building Inspectors and council members contacts number 8 of which 3 are responses.

FEMA contacts number 25 of which 6 are responses.

SBA contacts number 42 of which 31 are responses or follow-up calls to my calls. (Some of the SBA return calls required SBA to track me down in Temecula, Sacramento and Chatsworth. None of the other groups went to that extent). The attitude, interest and response exhibited by all the SBA individuals that we have contacted has been outstanding. Certainly is different than I have experienced in dealing with other official groups.

3. Activities

Contacting FEMA, SBA, banks, contractors and local officials has been an interesting exercise in keeping my cool. It is an experience that I wouldn't wish on anyone except our insurance agent.

4. Observations

From our viewpoint SBA has been very responsive and helpful. This attitude has been evident from our first contact when the young man at the Winnetka SBA Field Office said to us "We are here to help you". Believe me, in the mental state we were in on that second Saturday after the Quake, that was the beginning of a very positive experience.

At this point if it were not for SBA, we probably would have had to borrow heavily from our children or declare Bankruptcy and then walk away from the house. As it is our Children have arranged for us to use a trailer as temporary housing. They also expect us to spend three to four days a week with one or the other and their children.

FEMA is not on our list of positive/responsive government agencies.

Our experiences with the insurance company are very negative and we have passed the challenges on to our attorney. (Hopefully in one or two years we may get something to pay off the SBA loan).

In talking with our neighbors, majority of them are having very unhappy discussions/experiences with the insurance companies. As my information is from the discussions with people that stop by to see how we are doing and is not from personal experiences, I can only pass it on as given to me. There are enough `horror' stories to condemn some in the insurance industry for a long time.

Examples:

1. Insurance architect drew new house plans for a neighbor and did not include doors and windows. The contractor could not bid on the rehab work.

2. Insurance Company Adjusters insisting that some repairs can be of patch/cosmetic type in spite of Los Angeles Building Code requirements.

3. If policy holder will accept insurance company offer today, they will sweeten the offer by $5,000.00. (Insurance company offering $90,000 and lowest contractors estimate was $120,000.

4. Some insurance companies are insisting they will designate/identify the contractors to do the repair work.

Am not sure this is what you might want but will pass on my logged information since the Earthquake when I get there. (The log is approximately 35 pages long).

SCORE®
Sponsored by the U.S. Small Business Administration

Service Corps of Retired Executives Association

"Serving American small businesses for over 30 years"

STATEMENT OF

W. KENNETH YANCEY, JR.

EXECUTIVE DIRECTOR

SERVICE CORPS OF RETIRED EXECUTIVES ASSOCIATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

MAY 18, 1994

Mr. Chairman, my name is W. Kenneth Yancey, Jr. and I am Executive Director of the Service Corps of Retired Executives Association (SCORE).

I am grateful for the opportunity to appear before the Committee on Small Business. Since I am new to the Committee and to SCORE, please let me provide some personal information. I am from Plano, Texas, a suburb of Dallas. Before coming to SCORE I was Executive Director of the National Business Association, a non-profit organization of businesses that typically employ fewer than five people. I have also been a banking office president and small business lender in the Dallas/Fort Worth area.

As you know, SCORE is a non-profit association of retired men and women who volunteer to help new and existing small businesses. SCORE volunteers assist people in many different ways.

- We provide free counseling to those people who are thinking of going into business.
- We provide free counseling to existing business owners who have specific problems such as cash-flow or marketing.
- We provide low cost workshops and seminars on a variety of business topics.
- We help our clients by recognizing potential for failure early in the process.
- We help our clients by using our considerable networking skills.

- We provide our business experience to entrepreneurs who wish to discuss planning and review their overall operation.
- We counsel separated military personnel and people laid off in the private sector on considering small business as a career alternative.

SCORE is active in all 50 states, the District of Columbia and the U.S. territories. In fiscal year 1993, SCORE had 12,845 members which represents over 500,000 years of business experience. SCORE members counseled 175,893 business operators and aspiring business owners in 232,434 sessions and conducted 3,909 workshops for 110,415 attendees. All together, SCORE volunteers provided over 1.1 million hours in support of small business in fiscal year 1993. This represents over $100 million worth of counseling services if purchased from private firms. Based on the 1993 budget, SCORE services cost the American tax payer about $2.80 per volunteer hour. That is less than minimum wage for considerable expertise and sound advice.

SCORE has been working diligently to reach out to minority and women owned business. Our chapters reported that of the totals mentioned above, approximately 39% of workshop attendees were women and 14% were minorities. Furthermore, 41% of SCORE counseling cases were women-owned business and 18% were minority-owned businesses. The SCORE Board of Directors has recently authorized the formation of a task force to address recruiting of minorities and women.

The Small Business Administration and SCORE maintain a close working relationship in Washington, D.C. and across the country. SCORE provides services and, in one case, on-site management for all of the presently existing Business Information Centers (BICs) which are partnerships between SBA and SCORE. SCORE has been asked to provide its services at the 13 BICs that are in various stages of planning as well as in the One Stop Capital Shops (OSCS) that will exist within the so-called empowerment zones. SCORE services are also available to those individuals and businesses that are affected by military base closings, downsizings, base conversions, or those who are otherwise separated from the military. For example, SCORE has been very active at the naval shipyard in Charleston, South Carolina, which is closing, and at other installations around the country, including:

- Orlando Naval Training Center, Florida.
- Grand Forks Air Force Base, Grand Forks, North Dakota.
- Mare Island Naval Shipyard, California.
- Lowry Air Force Base, Denver, Colorado.

SCORE volunteers also provide help to those people affected by corporate downsizing. SCORE is conducting workshops at the superconducting super collider in Texas for those laid off because its closing. Also, along with the SBA in East Hartford, Connecticut, we are assisting those laid off from the Pratt Whitney plant. We are working with people laid off by Martin Marietta in the Pinellas County, Florida, area as well. SCORE helps these people to consider small businesses as potential employers and to consider self-employment as a career alternative.

SCORE operated on a budget of $3.08 million during fiscal year 1993. Congress increased SCORE's budget to $3.5 million for fiscal year 1994. SCORE requested $4.4 million for fiscal year 1995.

Our original request for fiscal year 1995 allowed for additional SCORE services, which included:

- Enhancing training of the SCORE counselors through local and national training programs.
- Participating in SBA initiatives including BIC's and OSCS.
- Increasing our ability to assist individuals or communities affected by defense or private sector layoffs.
- Increasing our efforts to reach out to women and minority business owners.
- Recruiting more women and minority SCORE members.
- Providing our expertise in areas that are now under-served.
- Implementing the SCORE On-Site Chapter Review program, whereby each SCORE chapter will be periodically evaluated by a SCORE volunteer field manager.

This funding would also help SCORE pay for the printing of additional business development publications that are used daily by our counselors and clients. Presently they are provided on a very limited basis by the Business Assistance Trust Fund operated by the SBA.

After submitting the fiscal year 1995 budget request, SCORE assumed full responsibility for its financial management by taking over from the SBA the reimbursement of SCORE volunteers for out of pocket expenses incurred in their counseling efforts. The SCORE Travel Expense Reimbursement System (TERS) staff now processes up to 1000 expense vouchers and checks per week, relieving the SBA of a tremendous administrative burden. There has been no increase in the long-term funding of SCORE since this undertaking. Also, the SBA in many instances is not able to provide SCORE chapters with office supplies, postage, photocopying and office space, which they had provided in the past. These situations put an additional burden on the SCORE budget.

SCORE requested $4.4 million for fiscal year 1995. However, the Administration's budget allocates $3.08 million, $1.3 million less than requested and $420,000 less than fiscal year 1994.

Without proper funding, we are hampered in our objective to provide an increased quality of services to America's businesses and to aspiring entrepreneurs.

If our funding is reduced from the amount requested for fiscal year 1995 appropriation, it could have some of the following effects:

1. Congress, when it appropriated the fiscal year 1994 budget, directed in the report of its conferees that $500,000 "be used entirely for enhanced training."

That funding allowed SCORE to complete the development of the first six modules of its Counselor Professional Development Program and begin its introduction to SCORE members. While this is a major portion of the training of SCORE counselors, we really should do more. With approximately 20% turnover per year in our volunteers, on-going training is very necessary. Without budget support this needed training will have to be reduced.

2. The Administration's $420,000 reduction below what Congress appropriated for fiscal year 1994 when calculated at our average cost per hour of $2.80, represents the cost of 150,000 volunteer hours. Moreover, assuming roughly two hours per case, this reduction represents over 74,000 clients we would be unable to serve.

3. The impact of a decrease in funding would be felt primarily in our smaller chapters located in less populated, more rural, areas. Small chapters may be forced to merge with other chapters or be closed. Chapter expansion and creation will be curtailed in all areas. Funds for clerical support will, of necessity, be further reduced.

This year, 1994, marks SCORE's 30th year of service to America's small businesses. We are proud to have counseled over 3 million clients since our founding in 1964. SCORE has enjoyed an excellent relationship with the SBA, SBI and SBDC over the years. We believe that each of these organizations provide necessary and useful services to different portions of the small business community.

Thank you again for the invitation to testify.

Congressman Walter Tucker
Committee On Small Business
May 25, 1994

GOOD MORNING. I AM VERY HAPPY TO BE HERE THIS MORNING FOR THE CONCLUSION OF A SERIES OF HEARINGS WE HAVE BEEN CONDUCTING ON THE REAUTHORIZATION OF SMALL BUSINESS ADMINISTRATION PROGRAMS. THE FINAL TWO TOPICS WE ARE REVIEWING TODAY ARE THE PRE-PAYMENT PENALTIES ATTACHED TO THE 503 DEBENTURE GUARANTEE PROGRAM AND THE MICRO LOAN DEMONSTRATION PROGRAM.

I HOPE THERE IS AN EQUITABLE SOLUTION WE CAN FIND TO HELP ALLEVIATE THE UNEXPECTED HARDSHIP FACED BY BORROWERS WHO ARE FACED WITH THE PROBLEM OF PRE-PAYMENT PENALTIES. THE MICRO LOAN PROGRAM IS SOMETHING I AM VERY INTERESTED IN AND SUPPORTIVE OF, BECAUSE I KNOW IN MY DISTRICT PEOPLE DO SEEK LOANS FOR UNDER $10,000. A SMALL SUM FROM A TRADITIONAL BUSINESS PERSPECTIVE, BUT ONE THAT WOULD ALLOW SOMEONE TO START SELLING HOT DOGS FROM A PUSH CART, AND WHO KNOWS WHERE IT COULD GO FROM THERE. THE POINT IS, THERE ARE PEOPLE OUT THERE WHO ARE DESPERATELY SEEKING THE CHANCE TO MAKE A START AND I SEE THE MICRO LOAN PROGRAM AS AN IMPORTANT TOOL TO HELP PEOPLE MAKE THAT START.

I THANK THE CHAIRMAN FOR CONDUCTING THIS SERIES OF HEARINGS AND I THANK THE WITNESSES FOR COMING IN THIS MORNING TO TESTIFY.

STATEMENT OF MARTY BROOKER
PRESIDENT
AIR-MACH, INC.
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 25, 1994

I am Marty Brooker, president of Air-Mach, Inc. of Des Moines, Iowa. I appreciate the opportunity to appear before the Committee to express my views on proposed legislation regarding the Section 503 loan program. I would like to testify in support of the legislation that would permit prepayment of SBA's Section 503 loans without penalty.

The company I now own, Air-Mach, Inc., was founded as an automotive engine rebuilding shop in 1933. In 1972, less than one year after high school, I was hired by this company as a mechanic. I purchased the business with a loan guaranteed by the SBA in September 1980. In 1985, at the end of a five year-lease and having outgrown the company's original location, we decided to build a new facility. My banker suggested I talk to the Des Moines Corporation for Economic Development, and this new building was financed by an SBA 503 loan. My bank supplied 50% of the money needed. The Des Moines Corporation for Economic Development supplied 40% ($103,000) which was guaranteed by the SBA under their 503 loan program. I supplied 10% as a down payment. The SBA 503 loan has a 20-year term and a fixed interest rate of 10.586%. The monthly payments are $1,093.94.

In August 1992 I decided to refinance the first mortgage on the real estate, the SBA 503 loan, and the original loan I used to purchase the business. My total loan payments were just over $6,000.00 a month. I thought by refinancing all three loans at a lower interest rate, I could cut our total monthly loan payment by two to three thousand dollars. I was hoping to add another product line and another employee.

When I called to get a payoff amount on the SBA 503 loan, I learned of the huge prepayment penalties associated with this loan. It was explained to me that by signing the loan documents I was responsible for the total interest cost for the life of the loan even if the money was paid early. They calculated a prepayment penalty of $19,900.00. My loan balance then was $87,800.00. The total payoff amount was $107,700.00. That was $4,700.00 more than I borrowed in 1985. After making monthly payments of $1,100.00 per month for seven years I still owed almost $5,000.00 more than I had borrowed. I was shocked. I was unable to refinance since this huge prepayment penalty made it economically unfeasible.

In November 1993 I again checked to see if I could refinance. It was explained to me that since interest rates were lower now than in August 1992 the prepayment penalty had grown to $24,700.00. The total balance of the 503 SBA loan was now $108,800.00. That was almost $6,000.00 more than I borrowed in 1985. From August 1992 to November 1993, after making 14 payments of $1,100.00 each month, I now owed $1,200.00 more than I owed 14 months ago. Again I was unable to refinance.

As you may know, the 503 loan program has been replaced by the 504 loan program. While the 504 loan programs still has a prepayment penalty clause, it is a thousand times more fair than the prepayment penalty associated with the 503 loan program. I am asking for your help to correct an error that is keeping my business, and many more like it, from hiring new employees and helping the economy's growth. Nowhere are there loans today with prepayment penalties like the ones we have with the 503 loan program.

I have been told the major hurdle in getting relief legislation passed is in appropriating money with the budget deficit as it is. May I suggest that the 503 loan prepayment penalty formula be added to all FHA & VA guaranteed home loans. Just think of the money this would raise to reduce the deficit. Think of the phone calls and letters you would receive when people could no longer move or refinance their homes without huge prepayment penalties. If you think this would be unfair and the American People would not stand for this, then maybe you can understand how we feel. Please support the proposal for prepayment relief.

Thank you for your time and consideration.

Community Equity Investments, Inc. (CEII)

302 North Barcelona Street
Pensacola, Florida 32501
(904) 444-2234
FAX (904) 444-2264

Testimony Before House Small Business Committee
May 25, 1994

Background - Good morning, I am Dan Horvath, President of Community Equity Investments, Inc. ("CEII") of Pensacola, Florida. CEII is a not-for-profit Community Development Corporation ("CDC") with a grass roots membership base of roughly 2,000 area residents. We are community-controlled in that a majority of our board is directly elected by our resident membership. The balance of the board is appointed from the local business, professional and governmental sectors. CEII is celebrating its 20th anniversary this year and has achieved some measure of success in our small business loan programs and in our affordable housing rental development programs.

Florida-Funded Revolving Loan Fund - Our RLF small business loan program has become a model program which was adopted by the Florida Department of Community Affairs for all CDCs wishing to operate small business revolving loan funds. The State provides CDCs such as CEII with an administrative grant of up to $100,000/annum (on a competitive basis); and provides a competitive loan pool from which CDCs can borrow to fund their loan pools. Since its inception in 1982 CEII's program has made in excess of 100 small business loans totalling just under $4 Million. The program is aimed at new job creation and we have created 480 new jobs at a cost per job of only $8,333. Our loss rate on the RLF is 3% of our total loan portfolio. We have strong bank participation in the loan underwriting/approval process. Additionally, banks purchase and service all our RLF loans. We provide a 90% cash guaranty on each loan, with the bank retaining the 10% interest paid by the borrowers and then paying CEII a 7% return on all guaranty deposits. The program helps the banks meet their CRA obligations and it provides CEII with a substantial return to help cover administrative costs in running the program. RLF loans run from $2,000 to $75,000; have an interest rate of 10% and a repayment term of 5-10-or 15 years. Florida provides its loan to CEII for 15 years at 0% interest.

SBA Microenterprise Demonstration Loan Program - Based on the strong track record we developed with our RLF program, we were successful in becoming one of the 35 intermediary lenders selected for the first year of this new SBA program. Our lending service area was expanded from just Escambia County (Western Florida) to a 15 county area ranging from Pensacola to Tallahassee. In our first year and a half we have made 48 microloans totalling $793,500 which, in-turn, have created/maintained 129 jobs (cost per job = $6,150). We have been approved for the maximum possible loan amount of $1,250,000 and are presently receiving the maximum possible training/technical assistance grant of $312,500 (based upon the full $1.25 Million loan level). We have a staff of 4 full time professionals working on the microloan program (a Vice President for Lending, Loan Officer, T/TA Officer and a Financial Analyst). Extensive T/TA services are provided on both a pre-loan and a post-loan basis.

Types of Loans - Our average loan size is $16,500. Just under 50% of our loans have been made to African-American owned businesses. Women-owned businesses have received 41% of our loans. Roughly half of our loans are start-up with the balance being expansions. We have made loans to beauty salons, funeral homes, bookkeeping services, realtors, clothing stores, automotive repair shops, manufacturers of fishing boat towers, day care centers, travel agencies, jewelry manufacturers, pipe manufacturers, drug treatment providers, upholstery shops, orthopedic product manufacturers, etc...

Specific Areas of Concern:

Matching Funds Issue - Present legislation requires a 35% match for all loan funds borrowed from the SBA. For our first year's loan of $500,000 we had to provide $175,000 in matching funds from non-federal sources. We utilized loan dollars provided to CEII by the State of Florida for our RLF program to provide the necessary match. In this manner we were able to leverage state funds into our first year's program participation in the microenterprise program. In the second year the legislation had changed to require that the 35% match be both non-federal and **non-borrowed**. This presented substantial problems to us in that we needed to generate another $262,500 **and** it could not be from borrowed sources -- meaning we had to eliminate our State-funded loan pool as a matching source. Fortunately, we were able to re-program, and use for the match, housing equity funds which were on-hand and were to have been utilized for further housing developments. The Committee should bear in mind that non-profit intermediaries do not readily have such sources of non-borrowed, non-federal funds available to them. Every funding source wants to provide its funds on a debt basis, and not as a grant. Thus, to the extent matching funds are available at all, they almost always will be in the form of debt. This should not make them ineligible for matching fund purposes... This is particularly true where the source of the match funding is a State-funded program.

Restriction on Use of Funds for Real-Estate Related Purposes - Presently we are not able to provide a loan if any of the loan purposes include leasehold improvements or improvements to borrower-owned property. This restriction seems unduly burdensome and we have had to turn down certain loans because the business owner wanted to improve his/her business property. The rationale for this restriction was never clear and I believe it places an unnecessary burden on the program. Often the borrower cannot obtain second mortgage financing or a business loan for leasehold improvements from conventional markets. That's why the microloan program was set up -- to meet the need for small loans which usually are not available conventionally. Why restrict loan purposes so as to preclude this type of lending?

Maximum Loan Size Issue - At our present rate of lending we will rapidly run out of SBA microloan funds with which to make new loans. The $1.25 Million cap is artificially low, especially for CDCs providing services on a regional, multi-county basis. I would recommend a cap in the $2.5 Million range as being more suitable. If a program is successful in making quality microloans (based on its actual track record), why limit that program from making more loans, which is what the program is all about anyway? It would seem that we are working at cross purposes if a fund such as ours had to stop making loans because we had become too successful in placing our loan funds...

Use of T/TA Funds only for "Borrowers" - The program presently authorizes intermediaries only to utilize T/TA funds on behalf of "borrowers" and not "applicants" for the microloan program. This is unfortunate in that we provide a substantial amount of training and technical assistance to micro businesses which, for any number of reasons, do now wind up becoming program "borrowers." As the program is now structured we are unable to charge-off any of those services against the T/TA grant. This is unfortunate in that we are able to maintain a higher quality loan portfolio by **not making** many of these loans. The T/TA services often convince an aspiring microentrepreneur that his/her business idea really isn't viable. The program should permit use of the T/TA grant for services provided to "applicants" who have survived a preliminary cut of overall program enquiries. The concern that all of our T/TA funds will have been expended on the front end leaving none for ongoing T/TA services is really unfounded. We have a vested interest in assuring that our borrowers succeed -- and that they pay back their loans. Thus, it is our self-interest to retain roughly half of available T/TA funds for post-loan closing services.

Cost of Funds and use of Interest for Administrative Purposes Issues - CEII has elected to be treated as a non-specialized lender -- meaning we make loans generally larger than the $7,500 cut-off mark. Our cost of funds, therefore, is 3 - 3/4% this year compared with 5-1/2% for the first year. This cost is not excessive although it might be simpler to utilize the flat 1% rate utilized for similar programs by the Farmers Home Administration. We make our loans available at a fixed rate of 11% and the spread to us of roughly 7% is needed for program administrative costs. The eligibility of these interest earnings for use by intermediaries to cover administrative costs is, however, not totally clear. Prior permission must be obtained from SBA for withdrawals of these funds for administrative purposes. It would be better if the eligibility of these earnings to cover such costs was made clearer up front so that the intermediary's ability to access these funds would be simplified. The present prior approval requirement is very cumbersome and makes it very difficult to access these funds. This is particularly critical in that no administrative funding is provided for this program and, really, the only source of such funds is the interest spread we earn.

Number of Intermediaries Per State and Funds Available Per State - I support the request of the SBA to eliminate the set number of intermediaries any state may have at one time. This is a particular problem in larger states like Florida. We are flooded with phone calls from all over Florida for microloans but are only able serve the Northwestern corner of the State. Another program is approved for north-central Florida from Gainesville north, but that leaves much of the state-unserved. Eliminating the cap on the number of intermediaries would enable other portions of the state to obtain access to this program. While increasing the dollar limitation per state to $5 Million is a step in the right direction, it will not be an adequate level of funding in the longer run. As funding resources are available, the $5 Million cap per state will definitely have to be increased once again. Increasing the national number of intermediaries from 110 to 200 intermediaries is an excellent idea. From the comments I receive from prospective borrowers when I tell them that my program is not available in South Florida, additional intermediaries are definitely needed.

Direct vs. Guaranty Lending - I feel the concept of making the microenterprise program into a guaranty loan program is not a good idea. I foresee many difficulties in getting banks to agree to make loans to the intermediaries in the first place. Many banks are reluctant to work with SBA programs because of the paperwork burdens involved. This is particularly true in Northwest Florida where only a few banks offer SBA products. Why would they want to make a loan to CEII, or any other intermediary, to operate a microloan program? Will banks be given some special CRA compliance credit to encourage their participation? If not, they'll probably have little interest in participating. Another concern has to do with the cost of funds to the intermediary. If we are to pay the same interest rate on our loans, SBA will have to subsidize the bank's loans to us so the bank will find it financially feasible to participate. If so, the extra cost to provide such a subsidy may very well run the program cost back up to what it presently costs. Thus, the leveraging benefits the SBA is seeking may be illusory. Lastly I question why the program should be "fixed" when it is not broken. We are not the only intermediary who is successfully running its microloan program. All across the country are intermediaries for whom the program is working, and working well. The program is just exiting its "demonstration phase" and I believe what has been demonstrated is that the model, with slight improvements, presently is extremely workable. I don't believe the guaranty loan experiment is necessary and, furthermore, I believe it will injure an already successful program.

Availability of CDBG Funds for Matching Purposes - Recent changes permitting the use of CDBG funds to match SBA microloan funds is a step in the right direction. It is not, however, a cure-all to the matching funds issue given local political environments. You should be aware that local cities and counties have very entrenched programs which utilize the bulk of available CDBG funding. Thus, the ability of intermediaries to access these funds is often difficult, if not impossible. In Northwest Florida it is virtually impossible to obtain a share of CDBG funds for use in this program.

How is SBA Running the Program - I am speaking from a professional background of over 25 years of working with CDCs and federal, state and locally funded community based economic development programs. From the early days of OEO through the gamut of federal programs, I have had experience with almost all of them. I can say, categorically, that the SBA's handling of the microenterprise loan has just been outstanding. I have never seen a program operate with such minimal red tape and so few problems. We market the program, find prospects, analyze the loan requests and make loans. Throughout the process and following loan closing we provide substantial training and technical assistance services to program participants ("borrowers"). I particularly like the fact that SBA does not analyse each and every loan we plan to make. They have examined our capacity as an intermediary and, having determined that we have the necessary ability to run a loan fund, they trust our judgment to do so... SBA provides up-front money and when we run low, they send more. It's really just that simple. That's why I would be so concerned with prospects for shifting to a guaranty program. The program is working so well right now, it really doesn't need any major re-directions at this point.

I would like to thank the members of the Committee for this opportunity to speak with you concerning the SBA microenterprise loan program. In and of itself, the program is an excellent tool for providing debt capital to the smallest of business enterprises. These are loans which are generally too small to elicit much interest from conventional lenders. They are also marginal from a credit underwriting standpoint making them of even less interest to bankers. This program fills that gap. It also fits quite well with our other small business loan programs, allowing us to offer a full complement of small business loans in our service area. I would be happy to respond to any questions you may have.

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN DATA SHEET
CUMULATIVE
05/23/94

TOTAL NUMBER OF LOANS	45
TOTAL DOLLAR AMOUNT OF ALL LOANS	$738,500
AVERAGE SIZE OF ALL LOANS	$16,411
TOTAL NUMBER OF LOANS TO WHITE BUSINESSES	23
Total Dollar Amount	$376,500
Average Size of Loans	$16,370
Percentage of Total Loans	51.11%
Percentage of Total Dollars	50.98%
TOTAL NUMBER OF LOANS TO BLACK BUSINESSES	21
Total Dollar Amount	$349,000
Average Size of Loans	$16,619
Percentage of Total Loans	46.67%
Percentage of Total Dollars	47.26%
TOTAL NUMBER OF LOANS TO OTHER ETHINIC BUSINESSES	1
Total Dollar Amount	$13,000
Average Size of Loans	$0
Percentage of Total Loans	2.22%
Percentage of Total Dollars	1.76%
TOTAL NUMBER OF LOANS TO WOMEN BUSINESSES	18
Total Dollar Amount	$290,000
Average Size of Loans	$16,111
Percentage of Total Loans	40.00%
Percentage of Total Dollars	39.27%
TOTAL NUMBER OF LOANS TO EXISTING BUSINESSES	24
Total Dollar Amount	$490,000
Average size of Loans	$20,417
Percentage of Total Loans	53.33%
Percentage Of Total Dollars	66.35%
TOTAL NUMBER OF LOANS TO NEW BUSINESSES	21
Total Dollar Amount	$248,500
Average Size of Loans	$11,833
Percentage of Total Loans	46.67%
Percentage of Total Dollars	33.65%

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN LOAN PORTFOLIO
MAY 23, 1994

LOAN #	BORROWER	DATE APPROVED	DATE TO ATTORNEY	CLOSING DATE	DATE TO S B A	LOAN AMOUNT	TERM	RATE	PAYMENT	PRESENT BALANCE	MATURITY DATE	LOAN STATUS	JOBS C / M
1	Small Business	17-Nov-92	01-Dec-92	21-Dec-92	11-Jan-93	$25,000	5 Yrs	11.25	546.68	19,636.91	21-Jan-96	CURRENT	4
2	Totally EnVogue	17-Nov-92	06-Jan-93	19-Jan-93	26-Jan-93	5,000	3 Yrs	13.25	169.08	3,154.54	19-Feb-96	CURRENT	8
3	Junior Funeral Home	12-Jan-93	22-Jan-93	29-Jan-93	05-Feb-93	25,000	5 Yrs	11.25	546.68	18,907.35	01-Mar-98	CURRENT	2
4	Alle's Accessories	12-Jan-93	20-Jan-93	09-Feb-93	16-Feb-93	5,000	2 yrs	13.25	0.00	DEFAULTED	DEFAULTED	DEFAULTED	1
5	Changes	12-Jan-93	05-Feb-93	16-Feb-93	22-Feb-93	25,000	5 Yrs	11.25	546.68	20,351.05	01-Mar-98	CURRENT	3
6	Bro-Tech Automotive	12-Jan-93	IN HOUSE	19-Feb-93	22-Feb-93	20,000	4 Yrs	11.25	0.00	DEFAULTED	DEFAULTED	DEFAULTED	2
7	Top Hat, Inc.	26-Jan-93	IN HOUSE	01-Mar-93	02-Mar-93	14,000	5 Yrs	11.25	306.14	11,789.56	01-Mar-98	DELIQUENT	1
8	Black's Child Care	12-Jan-93	IN HOUSE	05-Mar-93	09-Mar-93	16,000	5 Yrs	11.25	349.88	11,141.48	01-Apr-98	CURRENT	11
9	Baywatch Towers	12-Jan-93	04-Feb-93	10-Mar-93	17-Mar-93	12,000	3 Yrs	11.25	394.29	8,438.59	01-May-96	CURRENT	2
10	R & S Charter Service	16-Mar-93	IN HOUSE	19-Mar-93	24-Mar-93	25,000	5 Yrs	11.25	546.66	21,052.94	01-Apr-98	CURRENT	3
11	Miller Travel Agency	12-Jan-93	10-Feb-93	26-Mar-93	01-Apr-93	25,000	5 Yrs	11.25	546.68	21,052.94	01-Apr-98	CURRENT	4
12	Capital City Pipes	12-Jan-93	IN HOUSE	05-Apr-93	13-Apr-93	25,000	5 Yrs	11.25	546.68	21,052.94	01-May-98	CURRENT	5
13	Ringing Off The Hook	23-Feb-93	IN HOUSE	06-Apr-93	13-Apr-93	10,000	3 yrs	11.25	328.57	7,292.43	01-May-96	CURRENT	4
14	Advantage Food Sales	30-Mar-93	22-Apr-93	03-May-93	20-Apr-93	25,000	5 yrs	11.25	546.68	21,741.85	01-May-98	CURRENT	1
15	Choices	23-Feb-93	22-Apr-93	04-May-93	10-May-93	12,000	5 yrs	11.25	262.41	10,271.48	01-Jul-98	CURRENT	2
16	Quality Machines	27-Apr-93	IN HOUSE	06-May-93	10-May-93	11,000	4 yrs	11.25	285.64	9,491.06	DELINQUENT	DELIQUENT	1
17	Lasertronix	27-Apr-93	IN HOUSE	07-May-93	10-May-93	15,000	5 yrs	11.25	328.01	13,045.11	01-Jun-98	CURRENT	2
18	Rollo	27-Apr-93	IN HOUSE	07-May-93	10-May-93	25,000	5 yrs	11.25	546.66	21,309.00	01-Jun-98	CURRENT	2
19	Weaver	27-Apr-93	10-May-93	18-May-93	27-May-93	25,000	5 yrs	11.25	546.68	21,741.85	01-Jun-98	CURRENT	3
20	A & E Supply House	27-Apr-93	IN HOUSE	01-Jun-93	09-Jun-93	25,000	5 yrs	11.25	546.68	21,741.85	01-Jun-98	CURRENT	2
21	Oh-riginals	29-Jun-93	IN HOUSE	16-Jul-93	16-Jul-93	15,000	4 yrs	11.25	0.00	0.00	PAID	PAID	4
22	G & C Upholstery	29-Jun-93	IN HOUSE	16-Jul-93	16-Jul-93	5,000	3 yrs	13.25	169.07	4,053.11	01-Aug-96	CURRENT	2
23	Integrity Recycling	29-Jun-93	IN HOUSE	21-Jul-93	21-Jul-93	11,500	3 yrs	11.25	0.00	DEFAULTED	DEFAULTED	DEFAULTED	3
24	Dianna's Glamarama	27-Jul-93	IN HOUSE	16-Aug-93	16-Aug-93	4,000	3 yrs	13.25	135.26	3,340.64	01-Sep-96	CURRENT	4
25	Important Place	27-Apr-93	10-Aug-93	23-Aug-93	23-Aug-93	25,000	5 yrs	11.25	546.68	19,965.16	01-Oct-98	CURRENT	5
26	Art O'Facts	29-Jun-93	03-Aug-93	23-Aug-93	23-Aug-93	15,000	4 yrs	11.25	389.51	13,471.26	01-Sep-97	DELIQUENT	2
27	Douglas Allen	25-Aug-93	IN HOUSE	09-Nov-93	10-Nov-93	10,000	3 yrs	11.25	0.00	0.00	PAID	PAID	2
28	Southern Designs	26-Oct-93	IN HOUSE	12-Nov-93	17-Nov-93	15,000	4 yrs	11.00	387.59	13,985.80	01-Dec-97	CURRENT	1
29	Rothe & Company	26-Oct-93	IN HOUSE	19-Nov-93	22-Nov-93	5,000	3 yrs	11.00	163.69	4,309.80	01-Dec-96	CURRENT	4
30	Jackson Orthopedics	29-Sep-93	15-Nov-93	19-Nov-93	29-Nov-93	20,000	6 yrs	11.00	342.59	20,000.00	01-May-99	CURRENT	2
31	Sallabrations	26-Oct-93	IN HOUSE	23-Nov-93	29-Nov-93	15,000	4 yrs	11.00	387.69	13,986.40	01-Dec-97	CURRENT	1
32	Melvin Enterprises	29-Sep-93	29-Oct-93	30-Nov-93	06-Dec-93	10,000	3 yrs	11.00	327.39	9,289.34	01-Nov-96	DELIQUENT	2
33	Yogurt & Company	07-Dec-93	IN HOUSE	20-Dec-93	21-Dec-93	25,000	5 yrs	11.00	543.57	24,046.12	01-Jan-99	CURRENT	1
34	Brady's Kitchen Cntr	07-Dec-93	IN HOUSE	06-Jan-94	07-Jan-94	15,000	3 yrs	11.00	491.09	13,929.48	01-Feb-97	CURRENT	2
35	Ticket To Ride Travel	07-Dec-93	07-Jan-94	17-Feb-94	18-Feb-94	13,000	3 yrs	11.00	425.61	12,663.50	01-Mar-97	CURRENT	2
36	TECHEM of NW Florida	26-Jan-94	IN HOUSE	15-Mar-94	21-Mar-94	25,000	4 yrs	11.00	646.14	24,583.03	01-Apr-98	CURRENT	3
37	Important Products	07-Dec-93	07-Jan-94	31-Mar-94	01-Apr-94	25,000	5 yrs	11.00	543.57	24,685.60	01-Apr-99	CURRENT	3
38	Fun Castle, Inc.	22-Feb-94	04-Mar-94	12-Apr-94	12-Apr-94	15,000	4 yrs	11.00	387.69	15,000.00	01-May-98	CURRENT	2
39	JDM Enterprises	29-Mar-94	IN HOUSE	13-Apr-94	13-Apr-94	25,000	4 yrs	11.00	646.14	25,000.00	01-May-98	CURRENT	4
40	J J. Arthur Farms	22-Feb-94	04-Apr-94	20-Apr-94	22-Apr-94	15,000	4 yrs	11.00	387.69	15,000.00	01-May-98	CURRENT	2
41	Gulf Coast Nail Inst.	29-Mar-94	IN HOUSE	04-May-94	05-May-94	5,000	3 yrs	11.00	163.69	5,000.00	01-May-97	CURRENT	2
42	Underwater Systems	27-Apr-94	IN HOUSE	06-May-94	09-May-94	20,000	4 yrs	11.00	516.91	20,000.00	01-Jun-98	CURRENT	2
43	Striker Wear	27-Apr-94	IN HOUSE	10-May-94	11-May-94	10,000	3 yrs	11.00	327.39	10,000.00	01-Aug-96	CURRENT	2
44	K C. Services	29-Mar-94	27-Apr-94	12-May-94	13-May-94	15,000	5 yrs	11.00	387.69	15,000.00	01-Jun-98	CURRENT	2
45	Apogee Elec. Services	29-Mar-94	IN HOUSE	16-May-94	19-May-94	10,000	3 yrs	11.00	327.39	10,000.00	01-Jun-97	CURRENT	2
	TOTAL					$738,500			$16,534.87	$600,760.53			124

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN LOAN PORTFOLIO
MAY 23, 1994

LOAN #	BORROWER	DATE APPROVED	DATE TO ATTORNEY	CLOSING DATE	DATE TO SBA	LOAN AMOUNT	TERM	RATE	PAYMENT	PRESENT BALANCE	MATURITY DATE	LOAN STATUS	JOBS C/M
LOANS PENDING													
	Sal's Pizzeria	29-Mar-94				25,000	5 yrs	11.00%				PENDING	2
	Golden Graphics, Inc.	27-Apr-94				20,000	5 yrs	11.00%				PENDING	2
	Multi-Image Prod.	27-Apr-94				10,000	3 yrs	11.00%				PENDING	1
	TOTAL					$55,000							5
	TOTAL LOANS CLOSED & PENDING					$793,500							

STATEMENT OF DORIS M. JOHNSON
PRESIDENT
VANCOUVER BOLT AND SUPPLY INC.
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 25, 1994

Mr. Chairman and Members of the Committee, my name is Doris Johnson. I am President of Vancouver Bolt and Supply of Vancouver, Washington, and I have organized and lead an informal coalition that seeks to support the President's legislative proposals for prepayment without penalty of SBA's 503 loans. The total number of Section 503 loans involves 200,000 employees. As you know, changing the 503 prepayment penalty situation involves a two step process: first, passage of authorizing legislation and second, passage of an appropriations measure that implements the authorization.

Existing Legislation and Background

Current law does not permit prepayment of Section 503 loans without a prepayment penalty. A change in the statute is needed to permit the prepayment of section 503 loans. The President's legislative proposals for the SBA reauthorization bill submitted to the Congress contains provisions that would permit prepayment without penalty.

Many borrowers who obtained Section 503 loans at higher interest rates some years ago would now like to pay off their loans, but are prevented from doing so due to the exorbitant cost of the associated prepayment penalty. Due to the provisions of the Credit Reform Act of 1990, which was a component of the Budget Enforcement Act of 1990, any reduction in the revenues that the Federal Government is owed due to a change in legislation or discretionary administrative decision must be offset by a like amount of increased income from other sources. This is called the Pay-As-You-Go, or Pay-Go, concept in credit reform jargon.

I conducted a survey of Section 503 borrowers, trying to determine how many regard legislation waiving or altering the prepayment provisions as critical. There are about 3,500 Section 503 loans still on the books at SBA. Of the approximate 2,000 borrowers we contacted, I received 407 responses on short notice indicating a strong desire to change the legislation. Hundreds of other borrowers have contacted their elected Representatives and Senators on this issue in the past two years.

A copy of the survey results is attached to this statement. Responses from over 40 states were received: this is not a regional or parochial issue. Also attached is a copy of a fact sheet on this issue that we are circulating among House and Senate offices to educate and inform Representatives and Senators about this issue.

The Administration's Bill

We support the President's proposed legislation, however, we would not favor the provision that would permit borrowers with interest rates higher than 12 percent to prepay their loans first. We feel this is an unnecessary provision because the $30 million request will be adequate for all 503 borrowers who wish to prepay in Fiscal Year 1995, not just those with loans above 12 percent. The timing of prepayment for some is critical. Allowing higher interest borrowers to prepay first could mean the critical difference in survival for some borrowers with loans slightly below the 12 percent cut off.

A position taken by the Certified Development Companies (CDCs) has caused some concern among those of us who wish to prepay our Section 503 loans. It seems that the CDCs wish to impose a flat 7% prepayment penalty. This proposal represents an unwarranted and unearned "rake-off" of funds from the 503 borrower.

I have copies of letters expressing strong support for the prepayment legislation. I request that a list of the authors of these letters be made part of the hearing record. The list is attached at the end of my written statement.

Most of these letters speak of a critical need to obtain relief from the high interest rate of the 503 loan or the cost of the prepayment penalty. From the survey we learned that 31 businesses are on the brink of bankruptcy, involving the potential loss of 650 jobs. We are dealing with small businesses which cannot sustain much variability in their "loss" column without terminating their livelihood.

The issue is survival for many of us. The potential loss of jobs, the negative effect on our economy, and the tremendous loss in private capital and investment can be avoided with support of your Committee's action.

We feel the cost to the Government of eliminating prepayment penalties on SBA 503 loans will be none. Assuming that for government bookkeeping purposes the FFB/SBA needs to budget an amount equal to the perceived technical or paper loss resulting from prepayment of SBA 503 loans, it is our firm belief that there will be a net gain to the Government when prepayment penalties are eliminated.

If the U.S. Treasury has constantly refinanced (rolled-over) the general debt (with lower and lower interest rates, as good management would dictate), then it already has a profit on the SBA 503 loans made by the FFB. Granted this source of future profits will be reduced, but is it sound policy for the Government to ride the backs of small business in this way?

The prepaid principal received by the Government will permit the Treasury to further reduce its general debt. The survey showed that there could be an increase of 2,500 jobs, and, as a consequence, an increase of income tax receipts by the Government.

The refinance companies will have smaller interest deductions, therefore, larger profits on which to pay income taxes. The cost to the Government of unemployment payments will be reduced as will be the losses from bankruptcy.

It is crucial that everyone of the three to four thousand SBA 503 borrowers have the right to do so free of an impossible burden. This will place all borrowers in a more flexible position. All will have options. Potential liquidity will be available for all borrowers whether or not they exercise that potential. Estate planning will once more be possible. It will be possible to fell or hypothecate assets. Expansion and more employment will be possible. Borrowers can even die and have estates which can be settled.

Would anyone buy a business (or even want to inherit one) which could not be sold for 10 to 20 years? Illness, accidents, failed marriages, economic and competitive situations change the most optimistic outlooks. Without the flexibility to respond to change, SBA 503 borrowers are existing in a form of fiscal bondage.

The country truly needs a 1994 emancipation proclamation that releases SBA 503 borrowers from fiscal slavery. It will be a positive step towards economic recovery for small business and for the nation. Again, based on the input from hundreds of small business owners, it is our firm belief that there will be a net gain to the Government when prepayment penalties are eliminated.

Others can speak to their particular circumstances and the personal nature of this issue. I hope this overview has provided the Committee some idea of the public support, and the public policy rationale, for carrying out the President's proposal to change the existing situation with regard to prepayment of SBA's Section 503 loans.

Similar legislative solutions have been enacted for prepayment penalties for loans made by the Rural Electrification Administration and the Veterans Administration. The SBA 503 program is the only remaining Federal loan program that requires corrective legislation.

Thank you for allowing me the opportunity to present this statement for the Committee's consideration of pending legislative matters.

Attachments

HIGHLIGHTS OF SBA-503 BORROWER SURVEY

During December 1993, our SBA-503 Coalition questioned over 2,000 SBA-503 borrowers. (This is everyone for whom we had a street address and we believe represents more than half of all outstanding SBA-503 loans in the nation.) 407 of these, or about 20 %, indicated that they would and could refinance their loans if the prepayment penalties were eliminated or substantially mitigated. This high response to an in depth questionnaire indicates that it will be fair to apply the 20% figure to all outstanding SBA-503 loans.

The 407 positive respondents to the December 1993 questionnaire have 18,481 employees and can add 2,519 more if they are able to refinance their SBA-503 debt without prepayment penalties.

31 borrowers indicated that they face bankruptcy if they are unable to reduce their interest costs. Bankruptcy will impact the government guarantees and jeopardize 670 jobs. The total of unpaid loan balances of this group was $ 6,854,843.

The highest interest rate reported was 15.262 %.
The lowest interest rate reported was 7.328 %.
Over 86 % (351 borrowers) carry interest rates of ten percent (10%) or higher.

The average unpaid principal balance was $ 174,703.
The highest was $ 464,081 and lowest was $ 8,822.

Loan Origination by Year

Year	Number of Borrowers	Percent of borrowers
1981	7	1.7
1982	29	7.1
1983	70	17.2
1984	125	30.7
1985	114	28.0
1986	40	9.9
* 1987	22	5.4
Total	407	100.0

* (503 program replaced by 504 program)
Please note that 58.7 % of the loans originated in the two years 1984 and 1985.

Term of Loans

15-year	55	13.5
20-year	185	45.5
25-year	167	41.0
Total	407	100.0

Please note that 86.5 % of the loans have terms of 20 years or more.

Mrs. Doris M. Johnson, Coordinator
SBA-503 Small Business Coalition
805 West 11th Street, Vancouver, WA 98660-3056
206-699-4406 FAX 206-694-4153

SMALL BUSINESS ADMINISTRATION: LEGISLATION PERMITTING SECTION 503 LOAN PREPAYMENT WITHOUT PENALTY H.R. 4298; S. 2061

ISSUE: Current legislation related to SBA's Section 503 loans imposes a stiff penalty upon borrowers who wish to prepay or refinance their loans. A change in authorizing legislation is needed to allow Section 503 loan borrowers to prepay without penalty; an appropriation to "neutralize" the cost of the foregone prepayment penalties would also be needed on an annual basis under the terms of the Credit Reform Act of 1990.

BACKGROUND: The 503 loan program began in 1981. It provided long-term fixed rate financing for businesses needing to acquire industrial or commercial buildings, and to buy machinery and equipment.

About $922 million was funded through the 503 program. It was replaced in 1987 by the 504 program which substituted the private markets for the FFB as the funding mechanism for SBA-guaranteed debentures. About 3,500 503 loans remain in existence with interest rates as high as 15.7 percent.

There was only one major problem with the 503 program: the prepayment penalty. Borrowers can prepay only if they pay an amount that can be invested to produce a semi-annual payment stream identical to that of the original debenture. Because market interest rates have fallen considerably since the 503 loans were made, the prepayment penalties today are as high as 64 percent of the remaining loan balances. The lower rates go, the higher the penalty. This makes it extremely difficult for most of these small business owners to refinance their loans at today's low rates. They cannot expand their businesses and create new jobs. They cannot sell their businesses or retire, since buyers would not want to take on the 503 loans which carry high interest rates. In the case of the death of a borrower, the settlement of an estate with a 503 lien imposes significant hardship on survivors and family members. 503 loans were intended to help small businesses be more competitive, but because of the unresolved prepayment issue, they are now having the opposite effect.

Similar legislative solutions have been enacted for prepayment penalties for loans made by the Rural Electrification Administration and the Veterans Administration. The SBA 503 program is the only remaining Federal loan program that requires corrective legislation.

CURRENT STATUS: The President has submitted legislation to the Congress that would eliminate prepayment penalties for Section 503 loan prepayment. The President's Budget for Fiscal Year 1995 included $30 million to cover the cost of Section 503 loan prepayments. Hearings have been held by the House and Senate Small Business Committees and the House and Senate Appropriations Subcommittees under whose jurisdiction SBA falls. Administration witnesses from SBA have testified in favor of legislation that would eliminate the prepayment penalty. There are over four hundred Section 503 borrowers who have indicated a strong interest in prepaying their high interest 503 loans. Of these, 31 have replied that they fall in the "critical" category -- that is, if they cannot replace their current high interest loans and avoid the onerous 503 prepayment penalty, their businesses will close. The Administration's bill has perhaps one flaw -- it would allow those with loans in excess of 12 percent to prepay their loans first. This is discriminatory, and skewed in a conservative interpretation of the costs the Federal Government will accrue in the passage of such legislation. We feel:

- The Section 503 loan prepayment legislation should allow all borrowers to prepay within the earliest possible timeframe, without regard to interest rate or loan size;

- The $30 million will be sufficient to meet the costs of implementing the Section 503 prepayment penalty elimination in Fiscal Year 1995;

- Jobs will be maintained and businesses preserved in the spirit of economic development with the passage of this legislation: to fail to pass these legislative measures will result in both widespread personal hardships and the occurrence of negative economic factors counter to the economic expansion and business growth that has been emerging in the American business community over the past 18 months.

REQUESTED ACTION: The SBA Section 503 Loan Prepayment Coalition requests that Congress support the authorization and appropriations measures that would allow prepayment of SBA 503 loans without penalty:

(1) Support the passage of H.R. 4298 and S. 2061 (amended to allow all 503 borrowers to prepay without regard to interest rate); and

(2) Support the inclusion within SBA's FY 1995 Appropriation (Commerce-Justice-State bill) the President's Request of $30 million for Section 503 loan prepayment costs.

SECTION 503 LOAN PREPAYMENT LETTERS

	NAME	COMPANY	LOCATION
1.	Gary L. Ailes	Sierra Veterinary Hospital	Carson City, NV
2.	Mary Alexander	Kwik-Way Catering, Inc.	Concord, NC
3.	Woodrow J. Allen	Sierra Veterinary Hospital	Carson City, NV
4.	Paul Alme	Travel Host Motel	Watertown, SD
5.	Roger Anderson	Gortap Enterprises, Inc.	Rice Lake, WI
6.	Robert J. Andrew	Pacific Dental Group	Tacoma, WA
7.	Jack Bacon	J&E Steel Fabricating Corporation	Woodinville, WA
8.	Chester W. Barrows	Carpet Products Inc.	Cranston, RI
9.	Joseph S. Battista	Lite Haus, Inc.	Coeur d'Alene, ID
10.	Ralph Beerman	Beerman Precision, Inc.	New Orleans, LA
11.	Tom D. Belford, Jr.	Gentle Dental Care	Flint, MI
12.	A. Robert Boger	Pengad/West, Inc.	Fresno, CA
13.	George A. Borun	La Jolla Scientific Co. Inc.	San Diego, CA
14.	Larry M. Brown	Onions Inc.	Spokane, WA
15.	William F. Byrd, III	Pacific Die Casting Corporation	Vancouver, WA

16.	Albert C. Cestra	Carpet Collection	Trafford, PA
17.	Robert & Marilyn Chandler		St. Louis, MO
18.	William R. Cole	Cole Energy, Inc.	Plainfield, IN
19.	Don T. Compton	Whitewater Industries	Harrison, OH
20.	Bruce Cullom	Sound Towne, Inc.	Texarkana, TX
21.	John D'Addario, Jr.	J. D'Addario & Company, Inc.	Farmingdale, NY
22.	Ronald R. Danella	Cape Fear Manor Long Term Care Facility	Clarkton, NC
23.	Ted Davenport	Coyote Archery	Corbett, Oregon
24.	Cynthia A. Dietz	R.M. Dietz Company, Inc.	Portland, OR
25.	Don Dobbs	Brennnan Redevelopment Corporation	St. Louis, MO
26.	Wiley E. Douglas	Po Ventures, Inc.	Thomson, GA
27.	Eileen Dumford	Wheatland Magic Mill Ctr	Wichita, KS
28.	Wallace C. Eberhardt		Sacramento, CA
29.	Randy Essenberg	Hydro-Chem Systems Inc.	Grand Rapids, MI
30.	Alvin L. Evans	Standard Paint & Wallpaper	Orange, CT
31.	Terence D. Farrar	Super Steel Treating Co.	Warren, MI
32.	Charles M. Feeny	C.M. Feeney Co., Inc.	Worthington, OH

33.	P. Jack Feller	P. Jack Feller, D.D.S., M.S.	Rock Springs, WY
34.	Alan Firestone	Firestone Plywood Corp.	Hicksville, NY
35.	Stephen F. Fisher	Security Products Company	Blaine, MN
36.	Paul H. Fletcher	Iowa Better Trucking Bureau	Sioux City, IA
37.	Ralph A. Fly	Clark Containers Inc.	Lyles, TN
38.	Paul A. Forte	Turbo Action	Jacksonville, FL
39.	Mitch Friedman	The New Norris Chevrolet Inc.	Westfield, NJ
40.	Walter A. Furman	Walter A. Furman, Inc.	Fall River, MA
41.	Harvey S. Gershenson	Acme Battery Manufacturing Co.	St. Louis, MO
42.	David Geurden	Hrnak's Flowerland & Gifts, Inc.	Oshkosh, WI
43.	Arthur Greenbaum	A.L. Greenbaum Co.	Las Vegas, NV
44.	Jerry T. Greer	Jerry Greer Airstream	Columbus, OH
45.	Howard F. Guerin	Pyromatics	Willoughby, OH
49.	Peter M. Hall	PeCo Inc.	Arden, NC
50.	Robert Hansen	Dultmeier Sales	Omaha, NE
51.	Glenn A. Henderson	Salem Tire Center	Salem, IL
52.	John C. Hirsch, Jr.	Power Torque Incorporated	St. Louis, MO

53.	Hugh G. Hood	Metal-Tech, Inc.	New Castle, DE
54.	Leslie Isozaki	K/P Corporation	Berdeley, CA
55.	Albert J. Janek, Jr.	PFI Precision Machining	New Carlisle, OH
56.	Doris M. Johnson	Vancouver Bolt and Supply Inc.	Vancouver, WA
57.	James Jordan	Midas Muffler Shops	Lancaster, CA
58.	Jeffrey Juhasz	Full Line Printing	Chicago, IL
59.	Jack Kalman	Jack Kalman & Associates, Inc.	El Cajon, CA
60.	Darlene Kampfer	Orting Food Center	Orting, WA
61.	Thelma Kearns	Thelma Kearns	Gladstone, OH
62.	Ralph Kemprud	Tower Motel	Bakersfield, CA
63.	Lee M. Kerley	General Sales Company	Ashland, KY
64.	Ned B. Kisner	Triangle Coatings	San Leandro, CA
65.	William Kleiner	Astro Tool Co.	Addison, IL
66.	Jim Knapp	K/P Corporation	Sisters, OR
67.	Constantine Koukios	Michael A. Tawney & Company, P.C.	Grand Rapids, MI
68.	Steve Leiserson	Kangaroo Video Products, Inc.	Santee, CA
69.	Michael Lemmers	Import Auto Parts Inc.	Omaha, NE

70.	Jay E. Lewis	J.E.'s Old Firehouse	Lake Havasu City, AZ
71.	S.D. Lewis	Alpha-Med, Inc.	Phoenix, AZ
72.	Jennifer Long	Tri-Village Studio	Columbus, OH
73.	Robert F. Lowe	Lowe Animal Clinic	Woodland Park, CO
74.	Thomas Lyden	The Moonraker	Youngstown, OH
75.	James E. Marchessault	Business Card Service, Inc.	Burnsville, MN
76.	Gary Marcotte	Maple Lane Nursing and Retirement Homes	Barton, VT
77.	Daniel D. Mayhew	Davis Boat Works, Inc.	Newport News, VA
78.	Dennis J. McCarthy	Precision Shooting Equipment, Inc.	Tucson, AZ
79.	C. McDonald, III	Murphy Company	St. Louis, MO
80.	Carl A. McGowan	Turf Pride	Evans, GA
81.	James C. Middleton	Hermiston Fine Furniture	Hermiston, OR
82.	Kenneth R. Miller	Davis Investment Company	West Des Moines, IA
83.	William J. Moore	Moore Lithograph, Inc.	Portland, OR
84.	James O. Morton	Carteret Lanes	Morehead City, NC
85.	H. Joseph Muehlbach	Trioptics Inc.	Milwaukee, WI
86.	Jerry Nelson	JT&T Products Corp	San Jose, CA

87.	Joe Newell	Concrete and Masonry of Harlan, Inc.	Harlan, KY
88.	John Neznik	Crystal Collision Center, Inc.	Crystal, MN
89.	Fred F. Noonan	Fred F. Noonan Company, Inc.	San Francisco, CA
90.	Robert L. Nybo	Nybo's Cafe, Inc.	Red Wing, MN
91.	James O'Connor	Tech/III, Inc.	Cincinnati, OH
92.	Donald R. Oliber		Kirkwood, MO
93.	James M. Owens	Laucks Testing Laboratories, Inc.	Seattle, WA
94.	Elmer W. Paetow	Aurora Import Repairs, Inc.	Aurora, CO
95.	William K. Parker	Downtown Radio of Denver, Inc.	Denver, CO
96.	Leo J. Polack	The Kimm Company	Minneapolis, MN
97.	John M. Poorman	SBA-503 Small Business Coalition	Portland, OR
98.	Douglas Price	San Diego Equipment Rentals, Inc.	San Diego, CA
99.	Josephine C. Purkiss	Purmax Oil Company	Lindsay, CA
100.	Peter Ragen	Homestead Products, Inc.	New Berlin, WI
101.	Jack R. Randall	Jack Randall's Automotive	Santee, CA
102.	Randy L. Reaume	Reaume Heating & Cooling Inc.	Grand Haven, MI
103.	Jo Anne Reitenbach	Molding Corporation of America	Burbank, CA

104.	David A. Renard	Renard Paper Company, Inc.	St. Louis, MO
105.	James T. Reynolds	Reynolds, Caronia & Gianelli	Hauppauge, NY
106.	Theresa Ann Riley	Riley Marine Products	Long Beach, CA
107.	Marjorie M. Rogers	Rogers' True Value Plumbing, Inc.	Carlinville, IL
108.	Edwin S. Rothberg	Industrial Metals & Surplus Inc.	Atlanta, GA
109.	Gary W. Russell	Madeline Island Ferry Line	LaPointe, WI
110.	Michael A. Santora, Sr.	Superior Tool Company	New Haven, CT
111.	Randy Scagliotti	Sacramento Animal Medical Group	Cool, CA
112.	Ken Scherer	Associated Printers Inc.	Libertyville, IL
113.	Jean E. Schrader	Van Factory & Truck Center	Puyallup, WA
114.	Nancy A. Schulba	Nancy A. Schulba	Alamo, CA
115.	Nan Scott	Dy-Dee Wash	South San Francisco, CA
116.	Marshall Scott	Marshall Scott Enterprises	St. Louis, MO
117.	Roy A. Smith	Southern Wood Preserving of Hattiesburg Inc.	Hattiesburg, MS
118.	Frank and Heather Smith	Dynarad Innovative Engineering	San Leandro, CA
119.	Sherwood P. Smith	Olympia Plastic Surgeons, Inc.	Olympia, WA
120.	Robert W. Snyder	B&W Electric Supply, Inc.	Olympia, WA

121.	James J. Speciale	Beall Manufacturing Inc.	East Alton, IL
122.	Gene Speck	Connecting Point	Muskogee, OK
123.	John Spoor	Spoor Dental Supply	Dayton, OH
124.	Gerald J. Stadtmueller	Clifton, Gunderson & Co.	Oshkosh, WI
125.	Lacinda Stanfield	J's Wester	Hugo, OK
126.	Roger Staples	Staples & Pfeiffer Inc.	Sacramento, CA
127.	Joe and Bernice Stroh	Stroh Cleaners and Shirt Laundry	Garden City, KS
128.	James J. Sweeney	Sadler's Smokehouse	Henderson, TX
129.	Terry Sweeney	The Granary Restaurant	Oshkosh, WI
130.	Ray Tom	The Print & Copy Factory	San Francisco, CA
131.	Louise Trail	Metro Meats Inc.	Lexington, KY
132.	Roger J. Troutman	Catawba Animal Clinic, P.A.	Rock Hill, SC
133.	Donald R. Turner	Western Contract Furnishers	Rancho Cordova, CA
134.	Michael A. Vacco	Scornovacca Inc.	Des Moines, IA
135.	Kenneth N. Vitale	Rotary Multiforms, Inc.	Detroit, MI
136.	Man L. Wai	Man Wai's Dragon House	La Jolla, CA
137.	Avery Waisbren	AllStates Office Machines Inc.	Los Angeles, CA

138.	Prince A. Wallace	CREDIX Corporation	Edina, MN
139.	Charles R. Ware	Charles R. Ware	San Antonio, TX
140.	Joseph O. Watson	Imperial Memorial Gardens/Imperial Funeral Home	Pueblo, CO
141.	Cliff Watt	WESTAR Commercial Realty	Lubbock, TX
142.	Henry Weber	Weber Nameplate	Santa Ana, CA
143.	Carl Welti	Willowood Acres Veterinary Clinic	Romulus, MI
144.	Mike Welu	Tower Junction Inc.	Montfort, WI
145.	Donald J. West	Arnold Dental	Seattle, WA
146.	Frances Cerra Whittelsey	Whitcom	Long Island, NY
147.	Zachary Widdes	San Diego Design II	Santee, CA
148.	Gergory L. Wigton	Gregory L. Wigton, DDS	East Alton, IL
149.	Steve Zern	Pulmonary Medicine, P.C.	West Des Moines, IA

STATEMENT OF ED NICHOLAS
PRESIDENT
TIMBERLYNE CABINET COMPANY
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 25, 1994

Mr. Chairman, and Members of the Committee, I am Ed Nicholas, President of Timberlyne Cabinet Company, which is located in Angier, North Carolina. I appreciate the opportunity to appear before you today to testify in strong support of legislation that would permit borrowers of SBA's 503 loans to prepay without penalty. I am a member of the informal SBA 503 loan coalition supporting the President's legislative and budget proposals on this issue.

I obtained an SBA 503 loan in May 1986 in the amount of $207,000. I was thankful then for this badly needed source of capital. It enabled me to grow our small business to $3 million in sales and create over 100 jobs.

As a manufacturer in the woodworking industry we were compelled by competition to invest heavily annually in new machines and floor space. Today we are in debt to the extent that our banks are not interested in lending us the working capital required for sufficient growth to maximize our use of equipment and buildings.

Despite what you may think, I was not aware of the magnitude of prepayment penalties imposed on 503 borrowers. At the time I applied the Certified Development Company (CDC) "Financing Arrangements" detailed explicitly every element and cost associated with this program except the issue of prepayment penalty calculations. It said that "this price could be substantially in excess of the unpaid principal balance of the loan". I questioned the CDC president. He said the penalty would probably be comparable to commercial bank charges, but would be clearly indicated in the SBA documents at closing. By the time I received the SBA note that did spell it out I had already completed construction of our new plant and had been operating for eight months.

My position today requires that I refinance to survive. After eight years of monthly payments I owe $4,000 more than I originally borrowed. My prepayment penalty is $23,015 on a principal balance of $187,781. My interest rate is one of the lowest among all 503 borrowers at 9.1%. Imagine the impact on those majority of borrowers that have rates at 10-14%.

While we in the coalition generally support the thrust of the President's proposal, we are not in total agreement with all of the provisions of the Administration's proposal: we do not feel it necessary to institute a cutoff at 12 percent for the borrowers who might wish to prepay first. This provision is unnecessary, and the related delay in payoffs may cause some businesses with loans at less than 12 percent to go out of business before they are permitted to prepay under the Administration's two-tiered plan.

We have heard that the Certified Development Companies (CDCs) want to impose a flat 7% prepayment fee. We oppose this concept.

Thank you for this opportunity to testify. I will be pleased to answer any questions you or the other Committee Members might have.

TESTIMONY OF
TONY O'REILLY
EXECUTIVE DIRECTOR
SMALL BUSINESS ASSISTANCE CORPORATION

BEFORE THE
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

MAY 25, 1994

THE SMALL BUSINESS ASSISTANCE CORPORATION

The Small Business Assistance Corporation is a county wide (Chatham County), 504 Certified Development Company founded and licensed by the U.S. Small Business Administration since August 9, 1982. Our purpose is to assist small business persons to elevate their status and increase their participation in Chatham's free enterprise system. As a non-profit (501-C6) business development group, Small Business Assistance Corporation has been in full operation since September 1989. Our office provides the following services to our clients:

* Financing for new and existing business through the U.S. Small Business Administration section 7(A), 7(M) and 504 loan programs and the City of Savannah CDBG Revolving Loan Fund.

* Provision of management and technical assistance to Micro and small size business in all phases of their development.

* Contractor and vendor development programs to increase participation in public and private sector business opportunities.

* Dissemination of information concerning local business issues and program resources available to support small business growth.

* Generation of economic studies that are relevant to the day to day operation of small business concerns.

Since 1989, Small Business Assistance Corporation has offered a complete line of economic development services, from pre start-up counseling to follow-up management and technical assistance. We prioritize service to women and minority owned business persons throughout Chatham County. With funds from the city of Savannah, Small Business Administration, and Chatham County Board of Public Education, Small Business Assistance Corporation operates to enhance the local business environment in systematic way. Our program pursues three strategies: access to capital, and access to management assistance and business opportunity. We believe that a thriving small business community is a crucial element needed to accomplish a vibrant, job creating economy.

Our Accomplishment

The total of our loan volume since inception is impressive. Twenty-two million, seven hundred fifty-five thousand, three hundred seventy-nine dollars ($22,755,379.00) in business proposals being approved. This number is a cumulative total of a variety of loan programs now in place and being offered to the business community.

Through Outreach programs, comprehensive loan and business packaging, management and technical assistance programs, the Small Business Assistance Corporation seeks to improve small business in Savannah Georgia and surrounding area.

U.S. SMALL BUSINESS ADMINISTRATION
Microloan DEMONSTRATION PROGRAM (7M)

Small Business Assistance Corporation signed our $175,000 (7M) note in August 1992. Our first loan was made to a start up delicatessen in November of 1992. The program has been in operation approximately 21 months. Our boundaries of operation include five counties surrounding the City of Savannah GA., (4 rural). As of April 1994 the Small Business Assistance Corporation has approved 28 SBA Microloans at an average size of $6,796. The interest rate on these loans is 10% (APR. fixed). The average loan maturity is 22 months.

In keeping with my organization's mission to focus on women owned and minority owned business/entrepreneurs in low to moderate income neighborhoods, 50% of these loans were made in such neighborhoods. Eighteen percent (18%) of the Microloan portfolio is in rural defined counties. Fifty-seven percent (57%) of all loans went to women owned businesses or would-be owners. Sixty-four percent (64%) of SBAC Microloan recipients were minorities. Eighty-two percent (82%) of the loan projects were business start up applications.

These loans fall into a high risk classification due to being start ups, small owner equity and the small size of the loans. Nevertheless, the portfolio operates within a reasonable default rate given a 15% reserve. Current rate of default (over 90 days past due) is 5% of dollars loaned and 11% calculated on the number of loans. Average loan in default is approximately $1,000. This rate is calculated prior to liquidation of collateral. We are satisfied with the program's loan portfolio performance although we have made adjustments in our Peer Lending Program to improve repayment there.

The program has created 28 jobs at an average loan cost of $5,103. When the federal share of SBAC's technical assistance grant is factored into the equation the average federal cost per job is $8,229.

Overall the SBAC has concluded that the SBA Microloan Program is a viable program that creates access to much needed capital for small business projects started by women and minorities. It certainly fills a gap in the Savannah area financial marketplace.

SBA's underwriting criteria are flexible enough for us to design our programs to meet local priorities. The relative few, when compared to other program options ie, CDBG, restrictive requirements meet the test of reasonableness given the level of risk SBA can prudently take with Tax-payer money. As SBAC's program amortizes however, we are tempted to tighten our own underwriting criteria, to reduce the financial risk to our organization in the event we lose borrowed money.

MANAGEMENT AND TECHNICAL ASSISTANCE

Management and technical assistance are critical to the success of any Microloan agenda. It is important however, to balance the need for education and technical training with the need for immediate cash. We at SBAC believe it is more important to get Microentrepreneurs in business to allow them to exploit the market niches they have identified. Continuing management assistance that is coupled with assertive loan servicing or collections, ensures the survivability of the small enterprise and repayment of the loan.

SBAC works closely with other SBA resources to improve the viability of our Technical Assistance Program. SBDC and SCORE actively participate in Microloan client sharing.

The Technical Assistance grant procedures have proven unclear and risky to use because what is eligible hasn't been made clear. Timing and use of proceeds issues still need to be resolved, ie, administration, contracting etc. Recent developments in matching requirements and administration for second round intermediaries have been welcomed.

PROGRAM DEMAND

SBAC is aware of the significant demand and need for access to microbusiness loans in our market. In spite of our low key approach to promotion we will receive an average five (5) inquiries per day regarding loan possibilities, many from beyond our designated service area. Our service area is a 1.5 hour drive time radius from our office. At this time we will have no problem keeping the required principal balance loaned out to assure adequate cash flow to meet the term of repayment of our loan. We will not satisfy the real demand for small loans. There is a need for more qualified intermediary lenders to fill the needs of entrepreneurs.

SBAC is reluctant to expand our volume (loan amount) or geographic boundaries, however. Microlending in our opinion, to be effective over the long haul, must be a case management system with assertive collection policies in place. A regional approach to delivery will diminish an intermediaries ability to assess the viability of applications. It would return SBA to the past problems of the Direct loan programs emanating from District offices.

High program cost, higher financial risk associated with large volume and geographic expansion compels SBA to increase the number of qualified intermediary lenders to meet the pent up demand for smaller loans.

IN CLOSING

The U.S. Small Business Administration is our country's leader in small business development. We are encouraged that they are poised to take the lead role in developing small scale enterprise. We commend the Administrations decision to address the unique capital and management needs of Microentrepreneurs.

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Greater
Denver
Local
Development
Corporation

GDLDC

THE SBA MICROLOAN PROGRAM:
innovative financing for America's smallest businesses

Presentation
to the
Committee on Small Business
of the
House of Representatives

Chairman: Congressman John J. LaFalce

Wednesday, May 25, 1994

Presented by:

Cecilia H. Prinster
Executive Director

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Mr. Chairman, members of the Committee, and distinguished guests: I am pleased to have this opportunity to present to you some background about Greater Denver Local Development Corporation (GDLDC) and how the SBA Microloan Demonstration Program has affected our organization, our borrowers and our community in Colorado. I have also been asked to make some brief comments about the proposed changes to the program.

BACKGROUND ON GDLDC

There's an economic revolution brewing in Colorado and across the nation. In droves, people are starting their own businesses, creating jobs for themselves and others. The frontier spirit is thriving, as entrepreneurs with an abundance of ideas and energy make their dreams come true in small business ownership. But for many, this dream becomes a nightmare because they cannot obtain the financing to get started or expand. People who are poor, minority or female often lack the background and collateral required by traditional lending institutions. And the loans they need - sometimes as little as $500 - are too small to be profitable for banks.

GDLDC is a private non-profit organization making micro-enterprise loans to small businesses in the 5-county metro Denver area. For over 10 years, we have been providing loans to very small businesses which are excluded from traditional financing sources because of lack of equity, short operating histories, location in low-income neighborhoods, or the small size of their business. Our program is founded on the belief that business ownership should be a choice available to every hard-working, intelligent American, regardless of race, gender, social or economic background, or lack of formal education.

In 1992, GDLDC was chosen in the first round of 35 intermediaries for the Small Business Administration's (SBA's) innovative Microloan Demonstration Program. As a result of our participation in this program, we have broadened our lending base, doubled our loan portfolio and expanded our technical assistance capabilities for emerging businesses. The program has increased our visibility and enhanced our credibility in the business and financial community, enabling us to form effective partnerships with banks and community groups who are interested in microenterprise.

GDLDC BORROWER PROFILE

Our borrowers are involved in all types of businesses, including small manufacturing operations, service ventures, retail stores, restaurants and distributorships. Our loans have been used to purchase equipment, provide working capital during a start-up or expansion phase, smooth out cash flow during receivables collection, purchase inventory and finance tenant finish. Our average loan size is $11,000. So what can $11,000 do to make a difference for a small business? Let me give you some examples.

We made a loan to a Hispanic couple who wanted to expand their commercial printing and equipment repair business to acquire a used equipment inventory for refurbishing and resale. Our loan enabled them to add a product component to their service capabilities, thus diversifying their business and increasing their profitability.

Another loan helped a young Hispanic man who was laid off from his job with a large company to start a home-based computer graphics business. Our loan enabled him to purchase the computer system needed to do contract work in a very sophisticated industry . He is now enjoying the independence and flexibility of being his own boss. He has been so successful that now he is hiring an employee to help him service the client base he has developed on his own.

Another loan went to a woman-owned cartography business which enabled her to hire three employees and purchase the equipment needed to fulfill mapping contracts with the National Park Service and the Forest Service.

An African-American couple, who own a small, neighborhood convenience store near their home in a low income neighborhood, wanted to refurbish the building and increase the inventory in the store. With our loan, they have updated the appearance of the building and improved the inventory selection, thus contributing to the revitalization of their neighborhood.

One of our loans helped a woman who invented a play pillow for babies to launch her product to a national market. Another woman borrower is manufacturing her own brand of salad dressing. A woman from Paraguay expanded her successful empanada take-out window into a full-service restaurant with her loan proceeds. An immigrant from Ethiopia now has a computer training center. Another man purchased a bagel machine and now has more business than he can handle. The list goes on.....

But the fact is that none of these businesses, these people, these hard-working entrepreneurs could have accomplished their goals without the critical access to capital which our program has provided.

TECHNICAL ASSISTANCE

Money is important, but it doesn't ensure success. That's why our loan program combines financing with business technical assistance. Our business counseling, workshops, mentorship program and training are designed to nurture borrowers' capabilities and enhance their financial and management skills. Our program, along with other participants in the SBA Microloan Program, provides both the access to capital and the business support needed to succeed in today's competitive economic environment.

Changes in the economic climate which are spawning the rise in small business ownership have increased the need for non-tradtional financing, and the most refreshing thing about it is the recognition that technical assistance is as critical as access to capital in the success of very small businesses.

PROGRAM FEEDBACK

Although GDLDC has been making microloans for over 10 years, we now are coming into full bloom as a community financial resource. I attribute this success to our 10 years of experience in microlending, our solid capital base from private sources, and to our participation in the SBA Microloan Program, which has raised our local efforts to a national priority.

The SBA Microloan Program has not only provided the loan capital for us to meet the financing needs of non-bankable small businesses in our community. It has also enabled us to enhance our technical assistance capability, which is the critical support factor making a difference in the success of this lending program. Without the Microloan Grant for operations, we would be hard-pressed to raise the ongoing operational funding to implement our technical assistance program.

From the beginning, I have been impressed with the overall concept of the SBA Microloan Program. I believe the use of non-profits who are not constrained by the traditional banking outlook on very small businesses infuses creativity into the financial community. The Program's emphasis on providing technical assistance to borrowers maximizes their chance for success, recognizing that there are educational and training needs which entrepreneurs can only learn "on the job" in the context of their own small business. I think that the Program's requirement of matching funds is reasonable and fair because it holds the community responsible to "ante-up" for something which is important to it. Just as our loan program is not a giveaway for the borrowers, I think it is fair that the community should be required to contribute to a program like this which has such enormous potential for economic and social impact.

Overall, the SBA Microloan Program is very user friendly. It has been implemented by the SBA so that the non-profit is not overwhelmed with onerous government reports and forms. The Program is also user-friendly for the borrowers, who would be intimidated by working with banks or bureaucracies. By working with organizations like ours, they can enjoy the financial and technical support offered by the non-profit intermediary who can be committed to their personal and financial success, and who can prepare them for the requirements of traditional banking relationships.

I have found the SBA to be very responsive to the users of the program. They have made commendable efforts to incorporate feedback from the field into the Program design and implementation, which is why the proposed legislation (H.R 4287) is before you today.

This bill seeks to expand the program in several ways. First, allowing the SBA to guarantee loans made by "participating lenders" encourages banks and other non-governmental entities to get involved in microenterprise development. However, I am concerned that by adding participating lenders who will form lending alliances, we are creating a bureaucracy. I am afraid that another layer of intermediary involvement might impose their own values and objectives on the non-profits which would dilute the original intent of the program. I would resent having a participating lender who is not involved with my community exert undue control over my program which would detract from serving the needs of our borrowers. It might also add more administrative responsibilities on non-profits like ourselves, thus increasing the funding burden and distracting from the direct-service aspect of our business. The Microloan Program should not be micro-managed! The beauty of the Program now is that it is a grass roots program which is flexible and responsive to the needs of the local community. Please do everything to ensure that these qualities are preserved.

Expanding the number of programs is a must. I get calls every week from people who are out of our service area who could benefit from a similar program in their own community. Increasing the ceiling of available capital will be necessary as the programs become more utilized.

One other area of improvement to the Program which is not in the proposed legislation is the necessity of having grant funds for technical assistance available for the entire 10-year life of the loan to the intermediary. To ensure that the program will be a good, long-term investment of public funds, access to capital for microenterprise borrowers must always be coupled with technical assistance. It would be impossible for the non-profit intermediaries to raise private funds to cover the full cost of technical assistance needed to make this program work. Therefore, funding must be available to support the technical assistance activities of the non-profit intermediary.

By enabling people to own and operate their own businesses, they can develop the leadership and decision-making skills to act as role models for others: their children, their neighbors, their community. By supporting minority and woman-owned businesses, we are creating a more diverse economy capable of greater creativity and responsiveness to the needs of the marketplace. And by focusing on the importance of microenterprise in local communities across this nation, we are not only promoting revitalizationof our economy, but also raising the hopes and spirits of people who desire to be independent, contributing members of our society.

Greater Denver Local Development Corporation (GDLDC)
Report to the House Small Business Committee - May 25, 1994

Thank you, Mr. Chairman and members of the Committee, for allowing me to share my experiences with the SBA Microloan Program and my opinions about its expansion. I commend you for your support of microenterprise as an economic development strategy with unlimited potential. Thank you again.

Greater
Denver
Local
Development
Corporation

GDLDC

LOAN PROGRAM GUIDELINES

PURPOSE

The Greater Denver Local Development Corporation (GDLDC) is a private, independent non-profit corporation which was created in 1976. GDLDC maintains and operates two revolving loan funds for small businesses located in the greater Denver metropolitan area. They are the Women and Minority Fund and the SBA Microloan Fund.

The purpose of the SBA Microloan Fund is:

- to provide access to capital to low and moderate income business owners who cannot obtain financing through traditional sources.

- to encourage the financial and economic self-sufficiency of businesses owned and operated by low and moderate income individuals toward their eventual reliance on traditional financing sources.

- to stimulate the revitalization of older, low and moderate income neighborhoods by enhancing the quality and level of goods and services available in these residential communities.

- to promote job creation, job retention and employment opportunities for low and moderate income residents of the Denver area.

In addition to the above, the Women and Minority Fund also seeks to promote entrepreneurship and encourage business ownership among women and ethnic minorities so that they may achieve social and economic parity in the community.

Greater Denver Local Development Corporation
Loan Program Guidelines

ELIGIBILITY

Location

The business must be located in Adams, Arapahoe, Boulder, Denver or Jefferson Counties in the State of Colorado.

Forms of Business

The business must be organized on a for-profit basis, must be formally authorized to conduct business in the State of Colorado, and must operate out of a fixed business location. The business may be a corporation, a partnership or a sole-proprietorship.

Ineligible Businesses

- bars or liquor stores
- pyramid or other networking sales enterprises
- gambling or gaming operations
- media or publishing businesses (SBA Microloan Fund only)

Size of Business

- sales less than one million dollars
- owners with personal net worth less than $250,000

USES OF FUNDS

Eligible uses of funds:

- purchase of equipment or other fixed assets
- inventory expansion
- accounts receivable or contract financing
- other working capital needs
- acquisition of or improvements to land or buildings for use by the applicant's own business
- acquisition of an on-going business
- acquisition of franchises of nationally-recognized corporations

Ineligible uses of funds:

- payment of delinquent taxes
- purchase or improvement of residential property or other real estate not used by the owner's business
- payment of employee taxes or benefits which are in arrears

Greater Denver Local Development Corporation
Loan Program Guidelines

EVALUATION CRITERIA

The following factors will be considered in evaluating loan requests:

Location

- The business must be located in Adams, Arapahoe, Boulder, Denver, or Jefferson Counties.
- Priority will be given to projects located in economically distressed areas.

Amount of Request $25,000 or less

Management

Management must have effective control of the company through majority ownership interest. Management should demonstrate satisfactory experience and/or training in both the technical and sales aspects of the business. Management must agree to obtain technical assistance if required by GDLDC. In the case of the Women and Minority Fund, the business must haye majority ownership by a woman or minority who must also be its primary manager.

Job creation or retention

Priority will be given to those projects which create or preserve jobs, especially for low to moderate income residents of the neighborhood in which the business is located.

Unavailability of other suitable financing

GDLDC may require evidence of previous attempts to obtain financing from other sources and the results of those attempts.

Amount of owner(s)' equity investment

In general, an owner(s)' equity investment of at least 10% in the proposed project or business is preferred.

Feasibility of the project

The ability of the applicant to carry out the project in a manner consistent with GDLDC's program and the likelihood that the project can be accomplished in a timely fashion will be considered in determining eligibility for funding.

Financial condition of the company and the owners

The financial condition of the company and its owners will be considered, particularly their ability to meet the repayment schedule, the company's potential for growth and stability, and the owners ability to meet personal obligations.

Greater Denver Local Development Corporation
Loan Program Guidelines

Economic Impact

The impact of the proposal on the general employment and economic conditions of the community in which it is or will be located will be considered, as well as the level of local support for the project. Priority will be given to projects that

- maximize revitalization impacts and provide goods and services to low-income neighborhoods
- create jobs, particularly semi-skilled with training and/or advancement opportunities
- promote entrepreneurship and business ownership among socially and economically disadvantaged individuals

Collateral

Personal and business assets will be required as necessary to secure a loan. GDLDC must have a first lien on any equipment purchased with loan proceeds.

Availability of Funds

Loan approvals will be subject to availability of funds allocated to GDLDC and the comparative quality of applications considered.

LOAN TERMS

Interest rates on loans shall be structured to reflect market conditions and credit risk, up to a maximum of 13.25% p.a.

Loan maturities shall range from one to three years, depending on the use of funds and the nature of the business.

Loan fees shall be paid by the applicant, including reimbursement of filing fees and credit report fees.

TECHNICAL ASSISTANCE

Borrowers shall agree to participate in technical assistance and business training programs as presented or suggested by GDLDC.

FOR MORE INFORMATION CONTACT:

Dianne Baker
Program Director
Greater Denver Local Development Corporation
P.O. Box 2135
Denver, CO 80201-2135

Phone: (303)296-9535

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

November 3, 1993

The Honorable Ron Wyden
House of Representatives
Washington, D.C. 20515

Dear Ron:

Thank you for your letter requesting the Administration to lower interest rates or to reduce prepayment premiums for borrowers of Small Business Administration (SBA) Section 503 certified development company loans financed by the Federal Financing Bank (FFB). The Administration is sympathetic to the concerns of firms that borrowed Federal funds at a time when interest rates were much higher than today's rates. Unfortunately, we have determined that reducing interest rates or prepayment premiums through administrative action is not a workable option for two reasons.

First, the FFB does not have the legal authority to alter the contractual prepayment terms established in existing agreements between the FFB, SBA, and the certified development companies. It is a long-established rule of law that agents and officers of the Government have no authority to waive contractual rights that have accrued to the United States, or to modify existing contracts, without identifying in each case specific compensating benefits to the United States, as contractor and not as lawmaker. This rule has been recognized and recited in decisions of the Federal courts and in opinions of the Attorney General and the Comptroller General.

Second, even if the FFB had the authority to reduce interest rates or prepayment premiums on these loans, an appropriation from the Congress would be required under the Federal Credit Reform Act of 1990.

The Administration attempted to secure appropriations to facilitate the refinancings of these loans as part of the Commerce, State, Justice, and the Judiciary appropriations bill for fiscal year 1994. Approximately $30 million in appropriated funds would be required to lower the prepayment premium to a more acceptable level. Unfortunately, the bills passed by the House and Senate did not include funds for this purpose. Consequently, the Administration is unable to provide any relief from the interest rates presently being charged to Section 503 borrowers.

I hope this information is helpful. Please let me know whenever we may be of service.

Sincerely,

Michael B. Levy

Michael B. Levy
Assistant Secretary
(Legislative Affairs)

The Washington Post

BUSINESS

SBA Comes Under Fire As a Loan Arranger

Costly Prepayment Penalties Irk Firms

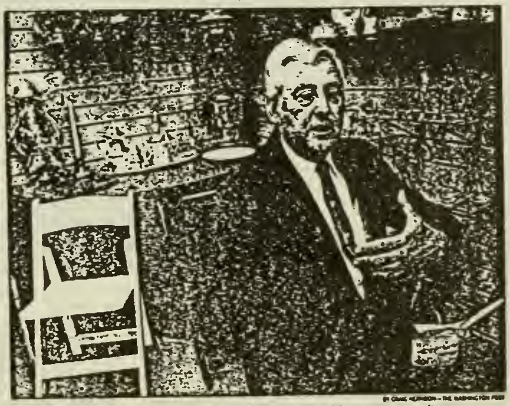
By Michelle Singletary
Washington Post Staff Writer

When Gerald Goldberg wanted a loan to buy a warehouse for his Bethesda party store and rental business, his bank turned him away. But he found a welcome mat at the government's Small Business Administration.

It was 1984 and the interest rate Goldberg agreed to on his $249,000, SBA-backed loan was high—13 percent—but it was close to the prime lending rate that banks were then charging their best customers.

Now, with the prime rate at 6 percent, the SBA loan is killing him.

Goldberg, 61, has wanted for several years to refinance his loan, as millions of other borrowers have been doing this year to take advantage of lower interest rates. But to do so, he would have to pay the government a penalty equal to more than 30 percent of the balance of the loan. It's right there in the fine print of his eight-year-old SBA agreement—fine print Goldberg says he never saw.



Gerald Goldberg said he can't afford to refinance his SBA loan because of the prepayment penalty.

"I'm hurting," said Goldberg, who owns A Total Rental Center Inc., a business he and his wife started in 1969, while he was serving as a U.S. Army officer.

"When I found out about the penalty, I was annoyed at the system and myself. But there was a ton of small print. I do know now that unless I was extremely desperate, I would not have taken out a loan with that kind of penalty."

Goldberg is one of many small-business owners throughout the country who can't afford to prepay or refinance such high-interest rate loans because the Bush administration is insisting that the terms of their SBA loans be met—terms imposing heavy penalties for early payoff.

An official with the Treasury Department said, in effect, that's life.

Neither the government nor the borrowers could have foreseen in the early 1980s how far interest rates would fall a decade later. But to ease the prepayment penalties would be giving the borrowers a subsidy at taxpayers' expense, the official said.

"They agreed to lock into the loans, so if rates go down that's the market risk they took," said the official. "If we allow the borrowers in this one program to break their contracts and prepay at par, we would have to do it for others."

SBA officials have taken a neutral stance on the issue.

"In the past we have been opposed to efforts to impose this type of penalty," said Allan Mandel, director of the Office of Rural Affairs

See SBA, F3, Col. 3

To Borrowers, SBA Loans Offer No Terms of Endearment

SBA, From F1

and Economic Development at SBA.

Twice before, Congress has tried to reduce the prepayment penalties. In 1988, President Reagan refused to sign a bill that had passed overwhelmingly in both the House and Senate. A second effort by the House two years ago failed when the Bush administration threatened to veto the bipartisan measure.

Some of the prepayment fees on the SBA loans range from 20 percent to 40 percent, according to Reps. Rod Chandler (R-Wash.), Ron Wyden (D-Ore.) and Andy Ireland (R-Fla.), who have introduced new legislation to reduce the penalties.

The loans were made under the SBA's 503 loan program, which no longer exists. Business owners were permitted to borrow money for the financing of fixed assets at long-term, fixed rates of 7 percent to 15 percent. The prepayment penalty is intended to give government the same payoff it would have received had the loan been paid in full with interest.

Goldberg said that when he first investigated paying off his 20-year loan early, he found out it would cost him a penalty of about $75,000, in addition to paying off the balance of the loan. Refinancing the loan at today's lower interest rates, he said, would significantly reduce the $36,000 a year in principal and interest that he pays on the loan.

More than 3,900 businesses nationwide participated in the SBA 503 loan program, signing up for $992 million in loans from 1981 to 1986. The outstanding balance of those loans is $670 million. In Maryland, Virginia and the District, there are 104 such loans worth $18.5 million.

When the SBA loans were granted, the business owners were required to put up at least 10 percent of the financing, a bank 50 percent and the SBA-backed loan program the remaining 40 percent, according to LeAnn Oliver, deputy director of the SBA Office of Rural Affairs and Economic Development.

The loan program was funded by the Federal Financing Bank, a unit of the U.S. Treasury.

The administration's position doesn't match its promises to help small businesses, according to Wyden. Earlier this year, President Bush asked all federal agencies to review their policies and regulations to see whether they could be made less burdensome on business.

"The bottom line is it comes down to a question of priorities," said Wyden, a member of the House Small Business Committee. "This administration that professes to be interested in small business wants to tie them down in this inflexible requirement."

The prepayment penalty is far more punitive than what commercial lenders would charge for paying a loan off early. "Generally, we don't charge prepayment penalties," said Kenneth Jenkins, a community lender for Riggs National Bank in Washington. "I think at this particular juncture of banking to have loans that are performing is a godsend. We are happy when people prepay loans. If the government is standing in the way of people reducing their debt, it's wrong."

"The penalty the government is assessing is definitely unreasonable, no matter how you look at it," said Devin Blum, an assistant vice president in the commercial lending division of Adams National Bank in the District.

The bill [illegible] by Wyden and others would cut the prepayment penalties roughly fivefold.

"We see people refinancing their homes and we are trying to make it so that these small businesses can too," said Al Schweppe, legislative assistant to Rep. Chandler.

But the bill is stuck in the House Small Business Committee and likely to remain there as long as the Treasury Department opposes it. "Basically," said a committee staff member, "this measure is going nowhere until the administration changes its mind."

Loan Penalties Deter Small-Business Expansion

Special to The New York Times

WASHINGTON, July 18 — A growing number of small-business owners are accusing the Small Business Administration — and the Bush Administration — of stifling their growth through its lending practices. Some even equate the Government to a loan shark.

Consider the case of Jim Owens, owner of Lauks Testing Laboratories Inc. in Seattle, which specializes in environmental testing. An S.B.A. loan in 1981 allowed his company to expand, creating jobs. Now, Mr. Owens says his employees "are packed in like sardines, but paying off his $336,000, 25-year S.B.A. loan early to clear the way to move into a new building would cost him a $123,123 prepayment penalty.

Penalties 'Extraordinarily High'

Mr. Owens's laboratory is one of 3,813 companies that as of February were still paying off loans taken out in the early 1980's under the small-business agency's 503 loan program. The loans, financed through the Federal Financing Bank, an arm of the Treasury, are at rates of as much as 15.7 percent, high now but comparatively low at the time.

While President Bush is encouraging investment to help create jobs and has jawboned the Federal Reserve to bring down interest rates further, prepayment penalties of as high as 40 percent of the original loan are preventing many of these small-business owners from growing or selling their businesses or from refinancing their loans to take advantage of lower interest rates.

"If it's a 40 percent charge, then that's extraordinarily high," said James Barth, a finance professor at Auburn University. "It's even more unusual and unreasonable that the Government would be doing this. But this is not an easy time to argue that people should be paying less for government-supported programs."

Small-business agency officials say, however, that they are bound by the current regulations. Dan Eramian, a spokesman for the S.B.A., said, "These are the Treasury Department's requirements, not ours."

Chris Brennan for The New York Times

Technicians in the gas chromatography lab at Lauks Testing Laboratories work in cramped quarters because the owner, Jim Owens, left, cannot move to a larger building. Stopping him is the hefty financial penalty he would incur for prepaying a 1981 Federal loan, which he wants to do before moving.

Anger over the prepayment penalties has spurred a grass-roots movement to persuade Congress and the Administration to lower those fees through legislation. More recent S.B.A. borrowers, after all, do not pay such high penalties. Responding to changes in Government accounting procedures, Congress in 1986 created the S.B.A. 504 program, wherein loans are financed through the private sector rather than the Treasury, alleviating some of the prepayment problems, said LeAnn Oliver, deputy director for the Office of Rural Affairs and Economic Development of S.B.A.

But a measure that would make the penalty on 503 loans more consistent with commercial rates of 7 percent to 8 percent is stalled in committee on Capitol Hill, and last week companion legislation was introduced in the Senate. The Treasury Department has urged President Bush to veto the legislation on the ground that changing the rules would widen the Federal budget deficit and cost taxpayers.

"If they are allowed to prepay the loans, there would be a direct cost to the Federal Government, and everybody else who has these kinds of loans would come in and ask for this type of arrangement, too," said a senior Treasury official, who spoke on condition that he not be named. "Then we couldn't give the same kind of low, long-term rate. Changing the agreement would be an inefficient, haphazard way to conduct a lending program."

Although prepaying the loans early would reduce the Federal deficit temporarily, in the long run the deficit would increase in the absence of the interest payments the borrowers would have been making, he said. He added that 10 or 15 other agencies, including the Tennessee Valley Authority, the Resolution Trust Corporation and the Rural Electrification

Continued on Page 37

N.Y. TIMES

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Making It Pay to Pay Early

Example Loan	Current Law	HR-4895 Proposal
[illegible]		
Prepayment penalty	$23,214	$9,306
Percentage of original balance	[illegible]	[illegible]
Percentage of remaining balance	21.3%	[illegible]
$226,000 for 25 years at 12.02% interest; Remaining balance: $213,[illegible]		
Prepayment penalty	$61,124	$19,281
Percentage of original balance	[illegible]	[illegible]
Percentage of remaining balance	[illegible]	[illegible]

Loan-Payment Penalties Deter Small Businesses

Continued From First Business Page

Agency, are or have been bound by the same prepayment rules.

In 1988, President Reagan vetoed legislation that would have lowered the prepayment premium. And two years ago, the bill was introduced and opposed by the Bush Administration, which said that Congress would have to offset an estimated loss of more than $150 million to the budget by cutting the same amount from other small business programs.

But Representative Ron Wyden, the Oregon Democrat who introduced the measure along with Representative Rod Chandler, a Washington Republican, said he thinks the move would cost the Government closer to $50 million, adding that he believes

> **Owners say the S.B.A. effectively is punishing them for creating jobs.**

the bill still has a chance because bipartisan support is growing. "We don't deny there are some costs to this," Mr. Wyden said.

Doris Johnson, co-owner of Vancouver Bolt and Supply Inc., in Vancouver, Wash., which sells supplies like nuts, bolts, wheelbarrows and drills, started the grass-roots group, called the S.B.A.-503 Small Business Coalition, after finding that she would have to pay a $45,000 penalty to prepay her $177,000 loan.

Mrs. Johnson said she had looked forward to eventually turning over her business to her son, but "we can't do any estate planning because we can't move the ownersh[illegible]," she said. "[illegible] you can[illegible] die, you can't refinance and you can't sell it," she added.

"Uncle Sam has become one of the biggest loan sharks of all time," said Mrs. Johnson, who has sent more than 2,000 letters to small-business owners and lawmakers in the three months since she organized the coalition. "This has turned out to be one of the largest tragedies of our business history."

Bernilda Britt knows this all too well. After her husband, Paul, died in February, as his sole survivor she found herself thrust into an unfamiliar role as president of a Minnesota company she knew little if anything about and with 100 anxious employees. Several months ago, when she looked into selling Dubuque Stamping and Manufacturing Inc., which makes metal parts for the construction and farm equipment industries, she found that paying off the S.B.A. 503 loan required her to come up with a prepayment premium of $135,000.

"When you're not involved in a business and all of a sudden you are involved, it is difficult," said Mrs. Britt, who had not worked at the company for 30 years. "It seems unfair to me that such a law can hold a penalty over the borrower, who does not know what type of catastrophe could befall them."

Labyrinthine Loan Language

To pay off the 503 loans, the borrowers essentially have to pay the equivalent of the principal balance and all the interest they would have had to pay had the loan been paid over the original time span — in many cases 20 to 25 years. Under the 504 program, each of the loans carries a prepayment provision that allows the businesses to pay the equivalent of one year's interest if the loan is paid off within a year, and the penalty decreases and is completely eliminated if the remaining life of the loan is less than one-half the life of the original loan.

Under the 504 program, for example, Mr. Owens's prepayment penalty, using a payoff date of July 11 of this year, would be $4,070.68 instead of $113,978.45 under the 503 plan, said Ms. Oliver of the S.B.A.'s rural affairs office. Mrs. Johnson's penalty would have been $7,426.10 under the 504 program instead of $33,361.40 under the 503 plan, Ms. Oliver said. Mrs. Britt's penalty would be zero instead of $81,581.18, she said.

The differences between the two programs have led S.B.A. 503 borrowers to compare themselves to the aggrieved "notch babies" of the Social Security system. These are people born between 1917 and 1921 who, because of a technicality in a bill Congress passed in 1977, receive significantly fewer benefits.

The prepayment language buried in the fine print of the S.B.A. 503 agreem[illegible] many of the borrowers say they do not even understand it in hindsight: "The debenture may be prepaid at such price as will result in a yield from the date of prepayment to maturity, equal to the U.S. Treasury new issued yield for a security with a maturity and payment schedule comparable to the remaining maturity and payment schedule of the debenture, computed as of the close of business two business days prior to the date of prepayment, plus accrued interest on the amount prepaid to the date of prepayment."

"One argument has been, 'Well, you knew what you signed,'" Mrs. Johnson said. "But we didn't know what we signed. No one spelled it out. The terms of the agreement were too complicated for even our attorneys to understand."

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN DATA SHEET
CUMULATIVE
05/23/94

TOTAL NUMBER OF LOANS	45
TOTAL DOLLAR AMOUNT OF ALL LOANS	$738,500
AVERAGE SIZE OF ALL LOANS	$16,411
TOTAL NUMBER OF LOANS TO WHITE BUSINESSES	23
Total Dollar Amount	$376,500
Average Size of Loans	$16,370
Percentage of Total Loans	51.11%
Percentage of Total Dollars	50.98%
TOTAL NUMBER OF LOANS TO BLACK BUSINESSES	21
Total Dollar Amount	$349,000
Average Size of Loans	$16,619
Percentage of Total Loans	46.67%
Percentage of Total Dollars	47.26%
TOTAL NUMBER OF LOANS TO OTHER ETHINIC BUSINESSES	1
Total Dollar Amount	$13,000
Average Size of Loans	$0
Percentage of Total Loans	2.22%
Percentage of Total Dollars	1.76%
TOTAL NUMBER OF LOANS TO WOMEN BUSINESSES	18
Total Dollar Amount	$290,000
Average Size of Loans	$16,111
Percentage of Total Loans	40.00%
Percentage of Total Dollars	39.27%
TOTAL NUMBER OF LOANS TO EXISTING BUSINESSES	24
Total Dollar Amount	$490,000
Average size of Loans	$20,417
Percentage of Total Loans	53.33%
Percentage Of Total Dollars	66.35%
TOTAL NUMBER OF LOANS TO NEW BUSINESSES	21
Total Dollar Amount	$248,500
Average Size of Loans	$11,833
Percentage of Total Loans	46.67%
Percentage of Total Dollars	33.65%

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN LOAN PORTFOLIO
MAY 23, 1994

LOAN #	BORROWER	DATE APPROVED	DATE TO ATTORNEY	CLOSING DATE	DATE TO S B A	LOAN AMOUNT	TERM	RATE	PAYMENT	PRESENT BALANCE	MATURITY DATE	LOAN STATUS	JOBS C/M
1	Small Business	17-Nov-92	01-Dec-92	21-Dec-92	11-Jan-93	$25,000	5 Yrs	11.25	546 69	19,636 91	21-Jan-98	CURRENT	4
2	Totally EnVogue	17-Nov-92	08-Jan-93	19-Jan-93	26-Jan-93	5,000	3 Yrs	13 25	169 08	3,154.54	19-Feb-96	CURRENT	8
3	Junior Funeral Home	12-Jan-93	22-Jan-93	29-Jan-93	05-Feb-93	25,000	5 Yrs	11.25	546 68	18,907.35	01-Mar-98	CURRENT	2
4	Alle's Accessories	12-Jan-93	20-Jan-93	09-Feb-93	19-Feb-93	5,000	2 yrs	13 25	0 00	DEFAULTED	DEFAULTED	DEFAULTED	1
5	Changes	12-Jan-93	05-Feb-93	19-Feb-93	22-Feb-93	25,000	5 Yrs	11.25	546 68	20,361 05	01-Mar-98	CURRENT	3
6	Bro-Tech Automotive	12-Jan-93	IN HOUSE	19-Feb-93	22-Feb-93	20,000	4 Yrs	11.25	0 00	DEFAULTED	DEFAULTED	DEFAULTED	2
7	Top Hat, Inc.	26-Jan-93	IN HOUSE	01-Mar-93	02-Mar-93	14,000	5 Yrs	11.25	306.14	11,789 66	01-Mar-98	DELIQUENT	1
8	Black's Child Care	12-Jan-93	IN HOUSE	05-Mar-93	09-Mar-93	16,000	5 Yrs	11.25	349 88	11,141.48	01-Apr-98	CURRENT	11
9	Baywatch Towers	12-Jan-93	04-Feb-93	10-Mar-93	17-Mar-93	12,000	3 Yrs	11.25	394 29	8,438 59	01-May-96	CURRENT	2
10	R & S Charter Service	18-Mar-93	IN HOUSE	19-Mar-93	24-Mar-93	25,000	5 Yrs	11.25	546 68	21,052.94	01-Apr-98	CURRENT	3
11	Miller Travel Agency	12-Jan-93	10-Feb-93	29-Mar-93	01-Apr-93	25,000	5 Yrs	11.25	546 68	21,052 94	01-Apr-98	CURRENT	4
12	Capital City Pipes	12-Jan-93	IN HOUSE	05-Apr-93	13-Apr-93	25,000	5 Yrs	11 25	546 68	21,052 94	01-May-98	CURRENT	5
13	Ringing Off The Hook	23-Feb-93	IN HOUSE	08-Apr-93	13-Apr-93	10,000	3 yrs	11.25	328 57	7,292.43	01-May-96	CURRENT	4
14	Advantage Food Sales	30-Mar-93	22-Apr-93	03-May-93	20-Apr-93	25,000	5 yrs	11.25	546 88	21,741 85	01-May-98	CURRENT	1
15	Choices	23-Feb-93	22-Apr-93	04-May-93	10-May-93	12,000	5 yrs	11.25	262 41	10,271.48	01-Jul-98	CURRENT	2
16	Quality Machines	27-Apr-93	IN HOUSE	06-May-93	10-May-93	11,000	4 yrs	11.25	285 64	9,491.06	DELINQUENT	DELIQUENT	1
17	Lasertronix	27-Apr-93	IN HOUSE	07-May-93	10-May-93	15,000	5 yrs	11.25	328 01	13,045.11	01-Jun-98	CURRENT	2
18	Rollo	27-Apr-93	IN HOUSE	07-May-93	10-May-93	25,000	5 yrs	11.25	546 68	21,399 00	01-Jun-98	CURRENT	2
19	Weaver	27-Apr-93	10-May-93	18-May-93	27-May-93	25,000	5 yrs	11.25	546 68	21,741 85	01-Jun-98	CURRENT	3
20	A & E Supply House	27-Apr-93	IN HOUSE	01-Jun-93	09-Jun-93	25,000	5 yrs	11.25	546 68	21,741.85	01-Jun-98	CURRENT	2
21	Oh-riginals	29-Jun-93	IN HOUSE	16-Jul-93	16-Jul-93	15,000	4 yrs	11.25	0.00	0.00	PAID	PAID	4
22	G & C Upholstery	29-Jun-93	IN HOUSE	16-Jul-93	16-Jul-93	5,000	3 yrs	13 25	169 07	4,063.11	01-Aug-96	CURRENT	2
23	Integrity Recycling	29-Jun-93	IN HOUSE	21-Jul-93	21-Jul-93	11,500	3 yrs	11.25	0 00	DEFAULTED	DEFAULTED	DEFAULTED	3
24	Dianne's Glamarama	27-Jul-93	IN HOUSE	18-Aug-93	18-Aug-93	4,000	3 yrs	13.25	135.20	3,340.84	01-Sep-96	CURRENT	4
25	Important Place	27-Apr-93	10-Aug-93	23-Aug-93	23-Aug-93	25,000	5 yrs	11 25	546 68	19,995.10	01-Oct-98	CURRENT	5
26	Art O'Facts	29-Jun-93	03-Aug-93	23-Aug-93	23-Aug-93	15,000	4 yrs	11.25	389 51	13,471.26	01-Sep-97	DELIQUENT	2
27	Douglas Allen	25-Aug-93	IN HOUSE	09-Nov-93	10-Nov-93	10,000	3 yrs	11.25	0.00	0.00	PAID	PAID	2
28	Southern Designs	26-Oct-93	IN HOUSE	12-Nov-93	17-Nov-93	15,000	4 yrs	11.00	387 59	13,985 80	01-Dec-97	CURRENT	1
29	Rothe & Company	26-Oct-93	IN HOUSE	19-Nov-93	22-Nov-93	5,000	3 yrs	11.00	163 69	4,399 80	01-Dec-96	CURRENT	4
30	Jackson Orthopedics	29-Sep-93	15-Nov-93	19-Nov-93	29-Nov-93	20,000	5 yrs	11.00	342.69	20,000.00	01-May-99	CURRENT	2
31	Sailabrations	26-Oct-93	IN HOUSE	23-Nov-93	29-Nov-93	15,000	4 yrs	11 00	387.69	13,985 40	01-Dec-97	CURRENT	1
32	Melvin Enterprises	29-Sep-93	28-Oct-93	30-Nov-93	06-Dec-93	10,000	3 yrs	11.00	327 39	9,286.34	01-Nov-96	DELIQUENT	2
33	Yogurt & Company	07-Dec-93	IN HOUSE	20-Dec-93	21-Dec-93	25,000	5 yrs	11.00	543.57	24,046 12	01-Jan-99	CURRENT	1
34	Brady's Kitchen Cntr	07-Dec-93	IN HOUSE	06-Jan-94	07-Jan-94	15,000	3 yrs	11.00	491 09	13,929 48	01-Feb-97	CURRENT	2
35	Ticket To Ride Travel	07-Dec-93	07-Jan-94	17-Feb-94	18-Feb-94	13,000	3 yrs	11.00	425.61	12,093.66	01-Mar-97	CURRENT	2
36	TECHEM of NW Florida	25-Jan-94	IN HOUSE	15-Mar-94	21-Mar-94	25,000	4 yrs	11 00	646 14	24,583 03	01-Apr-98	CURRENT	3
37	Important Products	07-Dec-93	07-Jan-94	31-Mar-94	01-Apr-94	25,000	5 yrs	11 00	543 57	24,685 60	01-Apr-99	CURRENT	3
38	Fun Castle, Inc.	22-Feb-94	04-Mar-94	12-Apr-94	12-Apr-94	15,000	4 yrs	11.00	387 69	15,000.00	01-May-98	CURRENT	2
39	JOM Enterprises	29-Mar-94	IN HOUSE	13-Apr-94	13-Apr-94	25,000	4 yrs	11.00	646.14	25,000.00	01-May-98	CURRENT	4
40	J.J. Arthur Farms	22-Feb-94	04-Apr-94	20-Apr-94	22-Apr-94	15,000	4 yrs	11.00	387 69	15,000.00	01-May-98	CURRENT	2
41	Gulf Coast Nail Inst.	29-Mar-94	IN HOUSE	04-May-94	05-May-94	5,000	3 yrs	11.00	163 69	5,000.00	01-May-97	CURRENT	2
42	Underwater Systems	27-Apr-94	IN HOUSE	06-May-94	09-May-94	20,000	4 yrs	11.00	516 91	20,000 00	01-Jun-98	CURRENT	2
43	Striker Wear	27-Apr-94	IN HOUSE	10-May-94	11-May-94	10,000	3 yrs	11.00	327.39	10,000.00	01-Aug-96	CURRENT	2
44	K.C. Services	29-Mar-94	27-Apr-94	12-May-94	13-May-94	15,000	5 yrs	11.00	387 69	15,000.00	01-Jun-98	CURRENT	2
45	Apogee Elec Services	29-Mar-94	IN HOUSE	18-May-94	19-May-94	10,000	3 yrs	11 00	327.39	10,000 00	01-Jun-97	CURRENT	2
	TOTAL					$738,500			$16,534 87	$600,760 63			124

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN LOAN PORTFOLIO
MAY 23, 1994

LOAN #	BORROWER	DATE APPROVED	DATE TO ATTORNEY	CLOSING DATE	DATE TO SBA	LOAN AMOUNT	TERM	RATE	PAYMENT	PRESENT BALANCE	MATURITY DATE	LOAN STATUS	JOBS C/M
LOANS PENDING													
	Sal's Pizzeria	29-Mar-94				25,000	5 yrs	11.00%				PENDING	2
	Golden Graphics, Inc.	27-Apr-94				20,000	5 yrs	11.00%				PENDING	2
	Multi-Image Prod.	27-Apr-94				10,000	3 yrs	11.00%				PENDING	1
	TOTAL					$55,000							5
	TOTAL LOANS CLOSED & PENDING					$793,500							

COMMUNITY EQUITY INVESTMENTS, INC.
MICROLOAN DATA SHEET
CUMULATIVE
05/23/94

TOTAL NUMBER OF LOANS	45
TOTAL DOLLAR AMOUNT OF ALL LOANS	$738,500
AVERAGE SIZE OF ALL LOANS	$16,411
TOTAL NUMBER OF LOANS TO WHITE BUSINESSES	23
Total Dollar Amount	$376,500
Average Size of Loans	$16,370
Percentage of Total Loans	51.11%
Percentage of Total Dollars	50.98%
TOTAL NUMBER OF LOANS TO BLACK BUSINESSES	21
Total Dollar Amount	$349,000
Average Size of Loans	$16,619
Percentage of Total Loans	46.67%
Percentage of Total Dollars	47.26%
TOTAL NUMBER OF LOANS TO OTHER ETHINIC BUSINESSES	1
Total Dollar Amount	$13,000
Average Size of Loans	$0
Percentage of Total Loans	2.22%
Percentage of Total Dollars	1.76%
TOTAL NUMBER OF LOANS TO WOMEN BUSINESSES	18
Total Dollar Amount	$290,000
Average Size of Loans	$16,111
Percentage of Total Loans	40.00%
Percentage of Total Dollars	39.27%
TOTAL NUMBER OF LOANS TO EXISTING BUSINESSES	24
Total Dollar Amount	$490,000
Average size of Loans	$20,417
Percentage of Total Loans	53.33%
Percentage Of Total Dollars	66.35%
TOTAL NUMBER OF LOANS TO NEW BUSINESSES	21
Total Dollar Amount	$248,500
Average Size of Loans	$11,833
Percentage of Total Loans	46.67%
Percentage of Total Dollars	33.65%

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Totally EnVogue Hair Design
ADDRESS:	1023 Crossing Brook Way Tallahassee, FL 32311
COUNTY:	Leon
PHONE #:	904/878-0088
PRINCIPALS:	Natalya D. Rawls, Owner
BUSINESS DESCRIPTION:	Totally EnVogue Hair Design operates as a full service beauty salon. The business specializes in hair, nail, and skin care and also offers a therapeutic massage service.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	8
LOAN CLOSING DATE:	01/19/93
LOAN #:	2

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Small Business Bookkeeping and Realty, Inc.
ADDRESS:	4911 Mobile Hwy. Pensacola, FL 32526
COUNTY:	Escambia
PHONE #:	904/453-4230
PRINCIPALS:	Williemae Stanberry, President and Owner
BUSINESS DESCRIPTION:	Small Business Bookkeeping and Realty operates as both a bookkeeping and a real estate firm. The company offers full accounting services including computerized recordkeeping, payroll and tax preparation, fax, typing, and notary services. SBBR's real estate services include consultations, seminars on the home buying process, and investment counseling. SBBR utilizes MSL home listing services.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	4
LOAN CLOSING DATE:	12/21/92
LOAN #:	1

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Junior Funeral Home
ADDRESS:	609 North Alcaniz St. Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/438-7773
PRINCIPALS:	Willie J. Junior, (51%) James Cronley, (49%)
BUSINESS DESCRIPTION:	Junior Funeral Home operates as a full-service funeral parlor. The company offers a unique drive-thru service which allows for viewing of remains twenty-four hours a day.
PREVIOUS EMPLOYEES:	3
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	01/29/93
LOAN #:	3

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Alle's Hats and Accessories
ADDRESS:	1400 East Park Drive Panama City, FL 32404
COUNTY:	Bay
PHONE #:	904/784-0445
PRINCIPALS:	Ella Carolyn Collier (50%) Deborah Jacploe (50%)
BUSINESS DESCRIPTION:	Alle's Hats and Accessories operates as a retail establishment offering hats and caps of all types as well as children's wear. Some products are manufactured in house. The business caters mostly to women and children, but also markets hats for men.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	02/09/93
LOAN #:	4

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Changes of Tallahassee
ADDRESS:	1471 Timberlane Rd., Ste. 120 Tallahassee, FL 32312
COUNTY:	Leon
PHONE #:	904/893-2388
PRINCIPALS:	Patricia Stephenson Christine Taylor
BUSINESS DESCRIPTION:	Changes of Tallahassee operates as a full service a beauty salon. The business employs three receptionists and facilitates ten cosmetologists (independent contractors).
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	3
LOAN CLOSING DATE:	02/16/92
LOAN #:	5

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Automotive Service Center (Bro-Tech)
ADDRESS:	4525 Capital Circle N.W. Bldg. D-8 Tallahassee, FL 32303
COUNTY:	Leon
PHONE #:	904/562-4858
PRINCIPALS:	Allen Brooks, Jr., Owner
BUSINESS DESCRIPTION:	Automotive Service Center operates as a full service automotive repair business. Services include tune-ups, brake servicing, air conditioning service and repair, engine and transmission repair, and electrical work. The business is prepared to handle all aspects of auto repair on most types of vehicles (including state and private contracts). The company also makes work or home service calls and provides transportation to work for clients if necessary.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	02/19/93
LOAN #:	6

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Top Hat, Inc. dba Expressions Unlimited
ADDRESS:	201 Caroline St. Milton, FL
COUNTY:	Santa Rosa
PHONE #:	904/626-6268
PRINCIPALS:	Gregory Allen, President Oranstine Franklin, Store Mgr.
BUSINESS DESCRIPTION:	Expressions Unlimited operates as a retail outlet for specialty clothes and beauty supplies including hair products, make-up items, t-shirts, caps, jewelry, art, and greeting cards. The business sells afrocentric as well as mainstream fashions.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	03/01/93
LOAN #:	7

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Beulah Black's Child Care Center, Inc.
ADDRESS:	1505 West Avery St. Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/435-6943
PRINCIPALS:	Beulah Black, Owner, President & Treasurer
BUSINESS DESCRIPTION:	Beulah Black's Child Care Center operates as a day care center. The business provides educational and developmental activities for preschoolers as well as school age children up to twelve years old. The center also receives referrals for West Florida Child Care.
PREVIOUS EMPLOYEES:	10
CURRENT EMPLOYEES:	11
LOAN CLOSING DATE:	03/05/93
LOAN #:	8

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Baywatch Towers
ADDRESS:	2930 West Avenue Gulf Breeze, FL 32310
COUNTY:	Santa Rosa
PHONE #:	904/934-1783
PRINCIPALS:	Tim Barry, Owner
BUSINESS DESCRIPTION:	Baywatch Towers offers custom built sport fishing towers to boat owners and dealers.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2 (including owner)
LOAN CLOSING DATE:	03/10/93
LOAN #:	9

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	R & S Charter Services
ADDRESS:	2727 North E St. Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/438-4761
PRINCIPALS:	Gilbert Robinson, Owner
BUSINESS DESCRIPTION:	R & S operates as a bus charter service. The service covers a vast area within the Southeastern region including charters to New Orleans, Biloxi, Tallahassee, St. Petersburg, Orlando, and various other cities. Charters are available for family reunions as well as social, civic, religious, high school, and fraternal organizations.
PREVIOUS EMPLOYEES:	3
CURRENT EMPLOYEES:	3
LOAN CLOSING DATE:	03/19/93
LOAN #:	10

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Miller Travel Agency
ADDRESS:	4600 Mobile Hwy., Ste. 108 Pensacola, FL 32505
COUNTY:	Escambia
PHONE #:	904/453-2378
PRINCIPALS:	Barbara L. Miller William H. Miller
BUSINESS DESCRIPTION:	Miller Travel Agency operates as a retail travel agency which sells airline and train tickets, hotel reservations, cruises, car rentals, and all other services regarding travel to both domestic and international sites.
PREVIOUS EMPLOYEES:	4
CURRENT EMPLOYEES:	4
LOAN CLOSING DATE:	03/26/93
LOAN #:	11

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Capital City Pipes, Inc.
ADDRESS:	1812 Mill St. #D-11 Tallahassee, FL 32310
COUNTY:	Leon
PHONE #:	904/574-3713
PRINCIPALS:	Lee Gilliam, Owner Mary Gilliam, Owner
BUSINESS DESCRIPTION:	Capital City Pipes sells pvc and concrete pipes, valves, and pumps. Fifty percent of sales are to government agencies, forty-six percent to contractors, and four percent to private concerns.
PREVIOUS EMPLOYEES:	5
CURRENT EMPLOYEES:	6
LOAN CLOSING DATE:	04/05/93
LOAN #:	12

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Ringing Off The Hook Jewelry
ADDRESS:	211 Main St., Ste. G Destin, FL 32541
COUNTY:	Okaloosa
PHONE #:	904/837-4368
PRINCIPALS:	Joselyn S. Walsh, Owner
BUSINESS DESCRIPTION:	Ringing Off The Hook Jewelry operates as a retail establishment offering handcrafted jewelry.
PREVIOUS EMPLOYEES:	4
CURRENT EMPLOYEES:	5
LOAN CLOSING DATE:	04/06/93
LOAN #:	13

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Advantage Food Sales South, Inc.
ADDRESS:	6003 West Shore Drive Pensacola, FL 32526
COUNTY:	Escambia
PHONE #:	904/944-0965
PRINCIPALS:	Gary P. Hermann, Owner
BUSINESS DESCRIPTION:	Advantage Food Sales South operates as a food brokerage company representing several manufacturers, selling to food distribution outlets throughout South Alabama and the Northwest Florida panhandle.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	05/03/93
LOAN #:	14

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Choices
ADDRESS:	303 3rd. St. Port St. Joe, FL
COUNTY:	Gulf
PHONE #:	904/229-2626
PRINCIPALS:	Sherry A. Davis-Broadhead, Owner
BUSINESS DESCRIPTION:	Choices operates as a private outpatient treatment center for drug and alcohol addictions.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	03/04/93
LOAN #:	15

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Quality Machine Service, Inc.
ADDRESS:	4206 Futura Dr. Pensacola, FL 32504
COUNTY:	Escambia
PHONE #:	904/476-6809
PRINCIPALS:	Timothy R. Rourke
BUSINESS DESCRIPTION:	Performs sales and service of blueprint machines and engineering copiers.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	05/06/93
LOAN #:	16

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Lasertronix, Inc.
ADDRESS:	1101 Gulf Breeze Pkwy. Suite 326 Gulf Breeze, FL 32561
COUNTY:	Santa Rosa
PHONE #:	904/932-0029
PRINCIPALS:	William C. Harris, Owner
BUSINESS DESCRIPTION:	Lasertronix, Inc. engages in the remanufacturing of printer cartridges, drum replacement, and the sales of computer aftermarket products.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	05/07/93
LOAN #:	17

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Michael Rollo, Attorney At Law
ADDRESS:	3 W. Garden St. Suite 508 Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/479-4687
PRINCIPALS:	Michael R. Rollo, Owner
BUSINESS DESCRIPTION:	The business operates as a full service law firm.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	05/07/93
LOAN #:	18

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Weaver, Attorney At Law
ADDRESS:	122 South Calhoun St. Tallahassee, FL 32312
COUNTY:	Leon
PHONE #:	904/561-1106
PRINCIPALS:	Ronnie H. Weaver, Owner Robert S. Cox, Owner
BUSINESS DESCRIPTION:	Weaver is a civil litigation firm practicing in the area of personal injury and products liability.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	3
LOAN CLOSING DATE:	05/18/93
LOAN #:	19

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Architects and Engineers Supply House, Inc.
ADDRESS:	331 West Government St. Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/434-1590
PRINCIPALS:	Craig McCoy, Owner
BUSINESS DESCRIPTION:	A & E Supply House, Inc. offers a complete line of supplies and services for building contractors, architects, and engineers.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	06/01/93
LOAN #:	20

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Oh-riginals
ADDRESS:	3875 Gerhardt Drive Pensacola, FL 32503
COUNTY:	Escambia
PHONE #:	904/434-5492
PRINCIPALS:	Melany Wilbanks, Owner
BUSINESS DESCRIPTION:	Oh-riginals wholesales specialty sportswear "color your own" t-shirts and night-shirts for children and adults targeting the college market.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	4
LOAN CLOSING DATE:	07/16/93
LOAN #:	21

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	G & C Upholstery
ADDRESS:	3017 N. Alcaniz St. Pensacola, FL 32503
COUNTY:	Escambia
PHONE #:	904/469-0267
PRINCIPALS:	John G. Beasley, Owner
BUSINESS DESCRIPTION:	G & C Upholstery operates as a full service upholstery repair business.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	07/16/93
LOAN #:	22

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Integrity Recycling
ADDRESS:	238 Karen Court Niceville, FL 32578
COUNTY:	Okaloosa
PHONE #:	904/729-2144
PRINCIPALS:	Stephen E Vargo, Owner
BUSINESS DESCRIPTION:	Integrity Recycling operates as a recycling service for commercial businesses and institutions. The business engages in the collecting, sorting, packaging, and selling of recyclables.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	3
LOAN CLOSING DATE:	07/21/93
LOAN #:	23

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Dianne's Glamarama
ADDRESS:	307 E. Gonzales St. Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/438-8700
PRINCIPAL:	Dianne Walker, Owner
BUSINESS DESCRIPTION:	Dianne's Glamarama operates as a full service beauty salon.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	08/16/93
LOAN #:	24

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Important Place Hair Styling Salon
ADDRESS:	1000 W. Tharpe St. #20 Tallahassee, FL
COUNTY:	Leon
PHONE #:	904/386-7407
PRINCIPALS:	Brenda Jones Swaine Jerome Swaine
BUSINESS DESCRIPTION:	Important Place Hair Styling Salon will operate as a hair care establishment specializing in hair care services including manicure/pedicure services and the selling of hair products.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	5
LOAN CLOSING DATE:	08/23/93
LOAN #:	25

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Art O'Facts
ADDRESS:	2810 Sharer Road Tallahassee, FL
COUNTY:	Leon
PHONE #:	904/656-8233
PRINCIPALS:	Clenteria Knight, Owner
BUSINESS DESCRIPTION:	Art O'Facts is a retail establishment specializing in art designed to reflect African American culture.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	08/23/93
LOAN #:	26

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Douglas P. Allen, Jr. Attorney at Law
ADDRESS:	2016 Delta Blvd. Suite 200A Tallahassee, FL 32303
COUNTY:	Leon
PHONE #:	904/386-4026
PRINCIPAL:	Douglas P. Allen, Jr.
BUSINESS DESCRIPTION:	Company operates as a full service law firm.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	11/09/93
LOAN #:	27

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Southern Designs
ADDRESS:	801-D 9th Avenue Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/469-8106
PRINCIPAL:	Charlotte Ann Blevins, Owner
BUSINESS DESCRIPTION:	Southern Designs is a retail establishment specializing in ladies clothing, accessories, image consulting, and cosmetics.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	11/12/93
LOAN #:	28

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Rothe & Company
ADDRESS:	307 W. Chase Street Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/438-5401
PRINCIPAL:	Glenn L. Rothe, Sr., Owner
BUSINESS DESCRIPTION:	Rothe & Company operates as a beauty salon offering full service hair styling, manicuring, pedicuring, and skin care.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	11/19/93
LOAN #:	29

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Jackson Orthopedics & Shoe Repair
ADDRESS:	7911 Perth Avenue Pensacola, FL 32534
COUNTY:	Escambia
PHONE #:	904/476-4921
PRINCIPAL:	Otis Jackson, Owner
BUSINESS DESCRIPTION:	Jackson Orthopedics & Shoe repair specializes in the building and repairing of orthopedic products.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	11/23/93
LOAN #:	30

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Sailabrations
ADDRESS:	801-D 9th Avenue Pensacola, FL 32501
COUNTY:	Escambia
PHONE #:	904/469-8173
PRINCIPAL:	Mary G. Beard, Owner
BUSINESS DESCRIPTION:	Sailabrations operates as a retail establishment specializing in ladies clothing and accessories.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	11/24/93
LOAN #:	31

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Melvin Enterprises
ADDRESS:	5412 Sullivan Road Tallahassee, FL 32311
COUNTY:	Leon
PHONE #:	904/574-3182
PRINCIPAL:	Kenneth B. Melvin, Owner
BUSINESS DESCRIPTION:	Melvin Enterprises operates as a music store selling compact discs, cassette tapes, and various cassette and compact disc storage units.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	11/30/93
LOAN #:	32

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Yogurt & Company
ADDRESS:	400 Caroline St. Milton, FL 32570
COUNTY:	Santa Rosa
PHONE #:	904/626-6840
PRINCIPAL:	Jean E. LaCoste, Owner
BUSINESS DESCRIPTION:	Yogurt & Company operates as a retail food service specializing in frozen yogurt, ice cream, soup and sandwhiches.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	12/20/93
LOAN #:	33

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Brady's Kitchen Center
ADDRESS:	14549 Hwy 89 Jay, FL 32565
COUNTY:	Santa Rosa
PHONE #:	904/675-4581
PRINCIPAL:	Brady C. Watson, Owner
BUSINESS DESCRIPTION:	Brady's Kitchen Center engages in the custom building of kitchen and bath cabinets.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	01/06/94
LOAN #:	34

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	A Ticket To Ride Travel
ADDRESS:	1101 Gulf Breeze Parkway, Suite 233 Gulf Breeze, FL 32561
COUNTY:	Santa Rosa
PHONE:	904/934-0802
PRINCIPAL:	Linda M. Mick, Owner
BUSINESS DESCRIPTION:	A Ticket To Travel operates as a full service travel agency specializing in airline ticketing, hotel and car reservations, convention and meeting services, and convention planning.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	02/17/94
LOAN #	35

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	TECHEM of NW Florida
ADDRESS:	200 E. Government St., Suite 140 Pensacola, FL 32501
COUNTY:	Escambia
PHONE:	904/432-2233
PRINCIPALS:	Robert Cooke, President Jack Croake, Vice President
BUSINESS DESCRIPTION:	TECHEM operates as a distributorship offering commercial swimming pool chemicals and related products.
PREVIOUS EMPLOYEES:	3
CURRENT EMPLOYEES:	3
LOAN CLOSING DATE:	03/15/94
LOAN #	36

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Important Product Sales
ADDRESS:	376 West Chase Street Pensacola, FL 32501
COUNTY:	Escambia
PHONE:	904/433-6013
PRINCIPAL:	Daniel J. Baldwin, II, President
BUSINESS DISCRIPTION:	Important Product Sales offers a complete line of microcomputer systems, system integration services, repair & maintenance services, and software development.
PREVIOUS EMPLOYEES:	3
CURRENT EMPLOYEES:	3
LOAN CLOSING DATE:	03/31/94
LOAN #	37

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Fun Castle, Inc.
ADDRESS:	2201 Langley Avenue Pensacola, FL 32501
COUNTY:	Escambia
PHONE:	904/476-8930
PRINCIPALS:	Michael Taylor, Owner Dora Taylor, Owner
BUSINESS DISCRIPTION:	Fun Castle operates as a full service day care center.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	04/12/94
LOAN #	38

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	JDM Enterprises
ADDRESS:	4774 Highway 90 West Pace, FL 32571
COUNTY:	Santa Rosa
PHONE:	904/944-4043
PRINCIPAL:	Jack D. McDonald, Owner
BUSINESS DISCRIPTION:	JDM Enterprises manufactures and markets positioning devices/products for the health care industry.
PREVIOUS EMPLOYEES:	4
CURRENT EMPLOYEES:	4
LOAN CLOSING DATE:	04/13/94
LOAN #	39

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	J. J. Arthur Farms
ADDRESS:	Rt. 2 Box LD 15 Laurel Hill, FL 32567
COUNTY:	Walton
PHONE:	904/834-3594
PRINCIPALS:	John Hearst, Owner Jessica Hearst, Owner
BUSINESS DESCRIPTION:	J. J. Arthur operates as a farm specializing in the breeding of Rheas.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	04/20/94
LOAN #	40

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Gulf Coast Institute of Nail Technology
ADDRESS:	421 E. Zarragoza St. Pensacola, FL 32501
COUNTY:	Escambia
PHONE:	904/435-7675
PRINCIPAL:	Linda B. Rankin, Owner
BUSINESS DESCRIPTION:	Gulf Coast Institute of Nail Technology operates as a state licensed school for manicurists and esthiticians.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	05/04/94
LOAN #	41

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Underwater Systems Associates, Inc.
ADDRESS:	117 Palm Harbor Blvd. Panama City Beach, FL 32408
COUNTY:	Bay
PHONE:	904/235-4213
PRINCIPALS:	David Wilson, Owner Carolyn Wilson, Owner
BUSINESS DESCRIPTION:	Underwater Systems Associates, Inc. provides engineering design, prototype development, full scale production, and logistics documentation services for pressurized breathing-gas systems.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	05/06/94
LOAN #	42

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Striker Wear
ADDRESS:	1549 S. Monroe Street Tallahassee, FL 32301
COUNTY:	Leon
PHONE:	904/561-6338
PRINCIPALS:	Harold Lyons, Owner Sharron Lyons, Owner
BUSINESS DESCRIPTION:	Striker Wear operates as a collegiate apparel store offering collegiate sportswear and various Greek fraternity and sorority sportwear.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	05/10/94
LOAN #	43

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	K. C. Services, Inc.
ADDRESS:	1455 S. Ferdon Blvd. Crestview, FL 32536
COUNTY:	Okaloosa
PHONE:	904/689-4546
PRINCIPALS:	Cheryl Bongiovanni, Owner Kevin Bongiovanni, Owner
BUSINESS DESCRIPTION:	K. C. Services provides accounting, bookkeeping, and computer services including computer training classes.
PREVIOUS EMPLOYEES:	2
CURRENT EMPLOYEES:	2
LOAN CLOSING DATE:	05/12/94
LOAN #	44

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Apogee Electronic Services, Inc.
ADDRESS:	180 E. Burgess Road Pensacola, FL 32503
COUNTY:	Escambia
PHONE:	904/484-7990
PRINCIPALS:	Luther J. Simon, Jr., Owner
BUSINESS DESCRIPTION:	Apogee Electronic Services, Inc. specializes in the sales and service of personal computers and peripherals, including personal computer networking , document processing systems, anda third party maintenance services.
PREVIOUS EMPLOYEES:	1
CURRENT EMPLOYEES:	1
LOAN CLOSING DATE:	05/16/94
LOAN #	45

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Sal's Pizzeria
ADDRESS:	782 Quietwater Beach Pensacola Beach, FL
COUNTY:	Escambia
PHONE:	904/939-9698
PRINCIPALS:	Salvatore LaCognata, Owner Maria LaCognata, Owner
BUSINESS DESCRIPTION:	Sal's Pizzeria will operate as a cafe'-style restaurant serving a variety of Italian ethnic food products.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	N/A
LOAN CLOSING DATE:	Pending
LOAN #	46

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Golden Graphics, Inc.
ADDRESS:	8008 Melita Court Tallahassee, FL 32301
COUNTY:	Leon
PHONE:	904/421-5724
PRINCIPALS:	Lester C. Weimer, Owner
BUSINESS DESCRIPTION:	Golden Graphics, Inc. will operate as a foil stamping and embossing specialty shop supplying specialized services for printers and ad agencies.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	N/A
LOAN CLOSING DATE:	Pending
LOAN #	47

MICROLOAN PROGRAM DATA SUMMARY SHEET

NAME:	Multi-Image Productions
ADDRESS:	2900 Blindbrook Lane Tallahassee, FL 32303
COUNTY:	Leon
PHONE:	904/562-5090
PRINCIPALS:	Steven H. Walters, Owner
BUSINESS DESCRIPTION:	Multi-Image Productions will operate as a home-based business specializing in high quality super VHS recording.
PREVIOUS EMPLOYEES:	
CURRENT EMPLOYEES:	N/A
LOAN CLOSING DATE:	Pending
LOAN #	48

I

103D CONGRESS
2D SESSION

H. R. 4297

To amend the Small Business Act.

IN THE HOUSE OF REPRESENTATIVES

APRIL 25, 1994

Mr. LAFALCE (by request) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Small Business Administration Amendments of 1994".

TITLE I

SEC. 101. Section 7(m)(1)(B) of the Small Business Act is amended by adding the words ", a lender or alliance of lenders" after the word "Administration", and by adding after the word "intermediaries" in clause (i) thereof the following phrase ": *Provided, however*, That the Administration may make in its sole discretion up to 100 percent deferred participation loans to ten intermediaries which will be located in urban areas and ten intermediaries which will be located in rural areas,".

SEC. 102. Section 7(m)(7) of the Small Business Act is amended by deleting the number "50" from subparagraph (B) thereof, and replacing it with the number "140", and by deleting the period at the end thereof and adding the phrase : "*Provided*, That no more than 200 total microloan programs may be funded", and by deleting subparagraph (C) thereof and inserting in lieu thereof: "(C) In no case shall a State receive more than $5,000,000 to fund all microloan programs conducted in that State.".

SEC. 103. Section 7(m)(3)(C) of the Small Business Act is amended by replacing the number "$1,250,000" with the number "$1,750,000".

SEC. 104. Section 7(m)(3)(F) of the Small Business Act is amended by adding after the phrase "10 years" in clause (i) the following: "with the first 5 years of any deferred participation loan being a revolving line of credit on which only monthly payments of interest will be required and the balance amortized over the second 5 year period, with equal monthly payments of principal and interest"; and by revising clause (ii) to read as follows: "(ii) APPLICABLE INTEREST RATES.—Exception as provided in clause (iii), loans made by the Administration under this subsection to an intermediary shall bear an interest rate equal to the rate of interest on comparable 5 year obligations of the United States Treasury.

TITLE II

SEC. 201. Section 7(a)(2)(B)(iv) of the Small Business Act is amended to read as follows:

". . . (iv) not more than 90 percent of the financing outstanding at the time of disbursement if such financing is an extension or a revolving line of credit made under paragraph (14) and not less than 90 percent of the financing outstanding at the time of disbursement if such financing is a loan under paragraph (16).".

SEC. 202. Section 7(a)(14) of the Small Business Act is amended to read as follows:

"(14) (A) The Administration under this subsection may provide extensions, specifically including guarantees of standby letters of credit and revolving lines of credit for export purposes, and financing to enable small business concerns, including small business export trading companies and small business export management companies, to develop foreign markets. A bank or participating lending institution may establish such rate of interest on extensions, revolving lines of credit and financing made under this paragraph as may be legal and reasonable.".

SEC. 203. Section 7(a)(3)(B) of the Small Business Act is amended to read as follows:

". . . if the total amount outstanding and committed (on a deferred basis) solely for the purposes provided in paragraph (16) to the borrower from the Business Guaranteed Loan Financing Account established by this Act would exceed $1,000,000 such amount to be in addition to any financing solely for working capital, supplies, or revolving lines of credit for export purposes up to a maximum of $750,000: *Provided, however*, That in no event may the aggregate amount outstanding and committed by the Administration under this subsection exceed $1,250,000 . . .".

TITLE III

SEC. 301. Sections 8(b)(2), (3) and (4) of the Small Business Act are amended by inserting the words "and other" after the word "small" wherever it appears.

TITLE IV

SEC. 401. Section 28(2)(g) of the Small Business Act is deleted and in its place the following is substituted:

"(g) There is established within the Administration an Office of Women's Business Ownership which shall be responsible for the administration under the supervision by the Administration of all authority conferred by this section. Such office shall be headed by a director who shall be appointed by the Administrator.".

TITLE V

SEC. 501. Section 8(b)(1)(A) of the Small Business Act is amended by adding at the end thereof the following sentence: "Notwithstanding any other provision of law, the authority provided by this subparagraph shall remain available until expressly repealed.".

SEC. 502. Section 411(a)(3) of the Small Business Investment Act of 1958 is amended by adding the following sentence at the end thereof: "Notwithstanding any other provision of law, the authority granted by this paragraph shall remain available until expressly repealed.".

SEC. 503. Section 5(b)(8) of the Small Business Act is amended by deleting the words "not in excess of six months".

SEC. 504. The second sentence of section 732 of Public Law 100–656 is repealed.

SEC. 505. Section 4(c) of the Small Business Act is amended to read as follows:

"(c) (1) There is hereby established in the Treasury one Loan Liquidation Fund. All repayment of loans and debentures, payments of interest, and other receipts arising out of transactions entered into by the Administration pursuant to sections 5(e), 5(g), 7(a), 7(b), 7(c)(2), 7(e), 7(h), 7(l), 7(m), and 8(a) of this Act, and titles III, IV, and V of the Small Business Investment Act of 1958, prior to October 1, 1991, shall be paid into such Loan Fund Liquidating Account. Balances existing in those revolving funds, as in effect immediately prior to the effective date of this paragraph, shall be transferred into such Loan Liquidation Fund. This Loan Liquidation Fund shall have available, without fiscal year limitation, such funds as are necessary to finance its operational needs.

(2) The Administration shall submit to the Committees on Small Business and Appropriations of the Senate and the House of Representatives, as soon as possible after the beginning of each fiscal year, a full and complete report on the status of the Loan Liquidation Fund established pursuant to paragraph (1).".

SEC. 506. Section 4(c)(5)(B)(ii) of the Small Business Act is amended to read as follows:

"(ii) The Administration shall pay into the miscellaneous receipts of the Treasury following the close of each fiscal year, the actual interest it collects during that fiscal year on all financings made under the authority of this Act.".

SEC. 507. Section 3(a)(2) of the Small Business Act is amended to read as follows:

"... (2) In addition to the criteria specified in paragraph (1), the Administrator may specify detailed definitions or standards for example, by number of employees or dollar volume of business, by which a business concern is to be recognized as a small business concern for the purposes of this Act or any other Act. Unless specifically authorized by statute, the Secretary of a department or the head of a Federal agency, other than the Administrator of the Small Business Administration, may not prescribe for the use of such department or agency a size standard for categorizing a business concern as a small business concern, unless such proposed size standard—

"(A) is being proposed after an opportunity for public notice and comment;

"(B) provides for determining, over a period of not less than 3 years—

"(i) the size of a manufacturing concern as measured by its average employment based upon employment during each of the concern's pay periods for the preceding completed twelve calendar months; or "(ii) the size of a concern providing services on basis of the annual average gross receipts of the concern over a period of not less than 3 years; and

"(C) is approved by the Administrator.

"(3) When establishing or approving any size standard pursuant to paragraph (2), the Administrator shall consider variations in economic activity from industry to industry unless the Administrator determines that size standards should not vary in order to meet program needs.".

SEC. 508. Section 5(b) of the Small Business Act is amended by deleting the word "and" at the end of paragraph (10) thereof, by removing the "." at the end of paragraph (11) thereof and replacing it with ", and" and (b) adding a new paragraph (12) which reads as follows:

". . . (12) to impose reasonable fees to be charged in connection with applications for assistance, and the provision of assistance under this Act and the Small Business Investment Act of 1958 and to retain such fees to offset the costs of administration of such assistance.".

SEC. 509. Section 8(b) of the Small Business Act is amended by deleting the word "and" at the end of paragraph (15), by striking the period at the end of paragraph

8(b)(16) and replacing it with "; and", and by adding a new paragraph 8(b)(17) which reads as follows:

"... (17) to charge and collect such fees as may be necessary to cover all costs associated with the production and dissemination of compilations of information produced by the Administration under the authority of the Small Business Act and the Small Business Investment Act of 1958, and to retain such fees and utilize such fees to offset the costs of production and dissemination of such compilations of information.".

TITLE VI

SEC. 601. Sections 20(k) through 20(p) of the Small Business Act are repealed and the following is substituted in their place:

"(k) The following program levels are authorized for fiscal year 1995:

"(1) For the programs authorized by this Act, the Administration is authorized to make $13,910,000,000 in deferred participation loans and other financings; and of such sum, the Administration is authorized to make $11,500,000,000 in general business loans as provided in section 7(a), $110,000,000 in loans as provided in section 7(m), and $2,300,000,000 in financings as provided in section 7(a)(13) and section 504 of the Small Business Investment Act of 1958.

"(2) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $23,000,000 in purchases of preferred stock, $275,000,000 in guarantees of debentures of which $65,000,000 is authorized for guarantees of debentures of companies operating pursuant to section 301(d) of such Act, and $550,000,000 in guarantees of participating securities.

"(3) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $2,000,000,000.

"(l) There are authorized to be appropriated to the Administration for fiscal year 1995 such sums as may be necessary to carry out subsection (k), including salaries and expenses of the Administration.

"(m) The following program levels are authorized for fiscal year 1996:

"(1) For the programs authorized by this Act, the Administration is authorized to make $17,475,000,000 in deferred participation loans and other financings; and of such sum, the Administration is authorized to make $13,500,000,000 in general business loans as provided in section 7(a), $175,000,000 in loans as provided in section 7(m), and $3,800,000,000 in financings as provided in section 7(a)(13) and section 504 of the Small Business Investment Act of 1958.

"(2) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $24,000,000 in purchases of preferred stock, $320,000,000 in guarantees of debentures of which $70,000,000 is authorized for guarantees of debentures of companies operating pursuant to section 301(d) of such Act, and $1,100,000,000 in guarantees of participating securities.

"(3) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $2,000,000,000.

"(n) There are authorized to be appropriated to the Administration for fiscal year 1996, such sums as may be necessary to carry out subsection (m), including salaries and expenses of the Administration.

"(o) The following program levels are authorized for fiscal year 1997:

"(1) For the programs authorized by this Act, the Administration is authorized to make $21,450,000,000 in deferred participation loans and other financings; and of such sum, the Administration is authorized to make $15,500,000,000 in general business loans as provided in section 7(a), $250,000,000 in loans as provided in section 7(m), and $5,700,000,000 in financings as provided in section 7(a)(13) and section 504 of the Small Business Investment Act of 1958.

"(2) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $25,000,000 in purchases of deferred stock, $385,000,000 in guarantees of debentures of which $75,500,000 is authorized for guarantees of debentures of companies operating pursuant to section 301(d) of such Act, and $1,700,000,000 in guarantees of participating securities.

"(3) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $2,000,000,000.

"(p) There are authorized to be appropriated to the Administration for fiscal year 1997, such sums as may be necessary to carry out subsection (o), including salaries and expenses of the Administration.".

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103D CONGRESS
2D SESSION

H. R. 4298

To amend the Small Business Investment Act of 1958 to permit prepayment of debentures issued by State and local development companies.

IN THE HOUSE OF REPRESENTATIVES

APRIL 25, 1994

Mr. LAFALCE (by request) introduced the following bill; which was referred to the Committee on Small Business

---

A BILL

To amend the Small Business Investment Act of 1958 to permit prepayment of debentures issued by State and local development companies.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. PREPAYMENT OF DEVELOPMENT COMPANY DEBENTURES.

(a) IN GENERAL.—Title V of the Small Business Investment Act of 1958 (15 U.S.C. 695, et seq.), is amended by adding at the end the following new section:

"SEC. 507. PREPAYMENT OF DEVELOPMENT COMPANY DEBENTURES.

"(a) IN GENERAL.—(1) If the requirements of subsection (b) are met and subject to the availability of appropriations, the issuer of a debenture purchased by the Federal Financing Bank and guaranteed by the Administration under section 503 may, at the election of the borrower whose loan secures such debenture and with the approval of the Administration, prepay such debenture by paying to the Federal Financing Bank, the amount that is equal to the sum of the unpaid principal balance due on the debenture on the date of the prepayment (plus accrued interest at the coupon rate on the debenture) and the amount of the repurchase premium described in paragraph (2)(A). The Administration shall pay to the Federal Financing Bank the difference between the repurchase premium paid by the issuer of the debenture under this subsection and the repurchase premium that the Federal Financing Bank would otherwise have received.

"(2)(A) The amount of the repurchase premium described in this paragraph is the product of—

"(i) the unpaid principal balance due on the debenture on the date of prepayment;

"(ii) the interest rate of the debenture; and

"(iii) the factor 'P', as determined under subparagraph (B).

"(B) For purposes of subparagraph (A)(iii), the factor 'P' means the applicable percent determined in accordance with the following table:

"Year in which prepayment of debenture is made (from date of original issuance)	Applicable percent			
	10-year term loan	15-year term loan	20-year term loan	25-year term loan
1	1.00	1.00	1.00	1.00
2	.80	.85	.90	.92
3	.60	.70	.80	.84
4	.40	.55	.70	.76
5	.20	.40	.60	.68
6	0	.25	.50	.60
7	0	.10	.40	.52
8	0	0	.30	.44
9	0	0	.20	.36
10	0	0	.10	.28
11	0	0	0	.20
12	0	0	0	.12
13	0	0	0	.04
14 through 25	0	0	0	.0

"(b) REQUIREMENTS.—The requirements of this subsection are met if—

"(1) the debenture is outstanding and neither the loan that secures the debenture nor the debenture is in default on the date the prepayment is made;

"(2) State or personal funds, which may include refinancing under the programs authorized by sections 504 and 505 of this Act are used to prepay the debenture; and

"(3) the issuer certifies that the benefits, net of fees and expenses authorized herein, associated with prepayment of the debenture are entirely passed through to the borrower.

"(c) No fees or penalties other than those specified in this section may be imposed as a condition of such prepayment against the issuer or the borrower, or the Administration or any fund or account administered by the Administration, except as provided in this Act.

"(d) The refinancing of debentures authorized by paragraph (b)(2) of this section under section 504 of this Act shall be limited to only such amounts as are needed to prepay existing debentures and shall be subject to all of the other provisions of sections 504 and 505 of this Act and the rules and regulations of the Administration promulgated thereunder, including, but not limited to, rules and regulations governing payment of authorized expenses and commissions, fees and discounts to brokers and dealers in trust certificates issued pursuant to section 505; provided, however, that no applicant for refinancing under section 504 of this Act need demonstrate that a requisite number of jobs will be created with the proceeds of such refinancing.".

SEC. 2. AUTHORIZATION AND ADMINISTRATION.

(a) The provisions of this Act are exercisable at the option of the borrower.

(b) Any new credit or spending authority provided for in this Act is subject to amounts provided in advance in appropriations Acts.

(c) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

(d) Within 30 days of the effective date of this Act, the Administration shall promulgate such regulations as are necessary, including establishing an order of priority to accomplish the provisions of this Act.

(e) Subsection 504(b) of this Act is hereby repealed, and subsection 504(a) is renumbered as section 504, and paragraphs (1) through (3) of subsection 504(a) are renumbered as subsections 504 (a) through (c).

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