



PROTECTION OF THE SBA 7(A) PROGRAM

Background

In January of 2004, the SBA temporarily suspended lending under the 7(a) program due to record loan demand that exceeded the program funding for the fiscal year (FY) 2004. Although industry was successful in getting the program reopened, the SBA reduced loan amounts and eliminated “piggyback” lending (the combining of 7(a) loans with conventional lending) due to a lack of lending capacity. SBA 7(a) loan limits were reduced in 2002 for similar reasons. Again, small business and lenders had to turn to Congress for relief. After negotiations involving the industry, the Administration and Congress, the program was eventually restored to its old levels with fees substantially increased to cover the costs of increased borrowing under the program. In the initial appropriation for FY 2005, the 7(a) program was once again underfunded. CBA joined the ABA and ACB in supporting an amendment to add \$79.1 million to the Commerce, Justice, State, the Judiciary and Related Agencies appropriations bill (H.R. 4754) to fully fund the 7(a) program. The amendment passed 281 to 137. Without this appropriation, and given current loan demand, the SBA would have been forced to suspend lending or reduce loan amounts to make it through the fiscal year.

SBA Program Critical to California

Demand for small business loans, especially 7(a) guaranteed loans, has increased significantly as many small businesses just pulling out of the recession do not have the strong balance sheets necessary to obtain conventional financing. Start-up businesses, in particular, rely on 7(a) as the last resort to access desperately needed capital. The SBA 7(a) loan program is vital to funding these businesses; it provides 30 percent of all long-term small business financing.

As the table below demonstrates, the SBA 7(a) and 504 programs are very important to California small business and the economy of the state. During FY 2003, the 7(a) and 504 programs provided more than \$3 billion in capital to small business in California, making California the largest beneficiary of the SBA program. Any effort to cut the program or reduce the size of loan that is eligible under the program has a disproportionately adverse effect on California small business—it will reduce the number of small businesses that get financed and also reduce the number of jobs that get created in California.

SBA FY 2003 7(a) and 504 Approval Volume by State

	7(a) # of loans	7(a) \$ Amount	504 # of Loans	504 \$ Amount
California	10,719 (15.9%)	\$ 2,241,168,000 (19.9%)	1,532 (22.3%)	\$ 835,033,000 (26.4%)
U.S. Totals	67,264	\$ 11,261,117,000	6,862	\$ 3,160,640,000

Facts and Figures

Over the past 10 years, (FY 1994-2003), the SBA has backed more than \$117 billion in loans to small businesses.

More than 29 percent of all SBA loan dollars in FY 2003 went to minority borrowers – nearly \$4.3 billion to more than 21,808 minority-owned businesses -- up 38 percent from FY 2002.

America's 22.9 million small businesses employ more than 50 percent of the private work force and generate more than 50 percent of the nation's non-farm private gross domestic product.

Small businesses generate 60 to 80 percent of net new jobs annually.

Small businesses create opportunities for women, minorities, veterans and the handicapped to enter the economic mainstream. From FY 2002 to FY 2003 SBA loans to small businesses owned by minorities increased by 38 percent (African Americans increased by 61 percent, loans to Hispanic Americans increased by 39 percent, loans to Asian Americans increased by 31 percent; and loans to Native Americans increased by 18 percent); loans to women small business owners increased by 33 percent and loans to veteran-owned small businesses rose by 22 percent.

The \$79.1 million appropriation approved by the House (Senate authorization pending) for FY 2005 is less than one quarter of what the Congress appropriated for the 7(a) program ten years ago (\$330 million) will generate nearly \$14 billion in private lending to small business nationwide. The tax revenues and employment generated by the 7(a) program more than offset the appropriation authorized by Congress.

In FY 2005 the 7(a) program will provide nearly \$3 billion in capital to California small business.

CBA's Position

As the economy continues to recover, SBA is experiencing record loan demand. While the proposed \$79.1 million 7(a) appropriation should meet the needs for the 2005 fiscal year, the future is uncertain. ***CBA supports the maintenance of a 7(a) program that can meet small business loan demand without reductions in guaranteed loan amounts or suspensions of lending.*** The suspension of lending and the reduction in loan amounts during the FY 2004 hurt many small businesses and our nation's economic recovery efforts. The 7(a) program is a proven creator of jobs and revenue. We urge you to make funding of the 7(a) program a top priority during this Congress.

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