



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

**Testimony of
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**Before the
Congressional Oversight Panel
Field Hearing in Phoenix, Arizona**

April 27, 2010

Thank you Chair Warren, and members Neiman, Silvers, Atkins, and McWatters. My name is Robert Blaney and I am the Arizona District Director for the Small Business Administration (SBA). I am honored to be testifying before you today on behalf of the SBA concerning current credit conditions for small businesses, especially those here in Arizona.

As you noted in your invitation letter, “the ability of small businesses to access affordable credit is critical to economic recovery and renewed job growth, particularly in Arizona where approximately 97 percent of the businesses in the state are considered small businesses.” We at the SBA could not agree more. One of the main missions of the SBA is to provide small business owners with access to much needed capital. We do this primarily by providing a partial government guarantee on loans given by banks and other lending partners.

This guarantee helps provide access to capital for creditworthy small businesses that would otherwise be unable to get loans. As a result, we over-index in loans to women and minorities. Additionally, SBA has specialty programs for some small business owners, such as our Patriot Express program, for Veterans, and Community Express, for businesses in distressed and underserved communities.

Our programs help to support many small businesses. And we understand the difficulties small businesses face with access to credit in today’s economic climate.

To address the financial crisis, Congress passed the Recovery Act, which President Obama signed into law on February 17, 2009. This legislation allowed the SBA to raise guarantees on eligible 7(a) loans to 90% and reduce or eliminate fees in our 7(a) and 504 loan programs.

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

As a result, while conventional lending to small businesses continues to lag, SBA lending nationwide has increased dramatically since the weeks before the Recovery Act was passed. Here in Arizona SBA lending has increased by nearly 60% since the passage of the Act.

Nationwide, we've turned about \$530 million in taxpayer funding into support for more than \$25 billion in loans to small business owners – which is a great bang for the taxpayer's buck. This includes nearly \$530 million in SBA-supported loans to Arizona-based small businesses

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

At SBA, we have identified several key problems that have contributed to the “lending gap” that remains between creditworthy small businesses and the financing that lenders are currently making available through conventional loans. We recognize that initiatives are needed that will address banks' capital constraints and decreased risk tolerance. After we examined how to use our programs to address demand for credit, availability of capital, and risk tolerance, the SBA worked with the President to create a jobs plan that targets the gaps that still exist. The proposals contained in this “small business jobs agenda” are aimed at increasing small business lending and putting more capital in the hands of small businesses to help them not only stabilize, but also expand and create jobs.

As outlined by the President in his State of the Union address earlier this year, there are 4 key components of this “small business jobs agenda”:

1. First, to address the issue of banks that still have trouble taking risk, we've asked for a temporary extension of the increased 90% guarantee and reduced fees.
2. Second, many small businesses – franchisees, manufacturers, exporters, and others – need bigger SBA loans to create jobs. Therefore, we want to permanently increase our top loan limits from \$2 million to \$5 million for 7(a) and \$4 to \$5.5 million for our 504 program.
3. Third, for businesses that can't find access to working capital, we need to temporarily raise the SBA Express loan limit from \$350,000 to \$1 million. These loans will help businesses restock shelves and fill orders coming in.
4. Fourth, we know that many small businesses have conventional, owner-occupied commercial real estate mortgages that will need to be refinanced soon. As real estate values have

declined, many banks will find that these businesses no longer qualify for conventional loans, regardless of the strength of the businesses. As a result, even small businesses that are performing well and making their payments on time can have a hard time refinancing these loans and may face foreclosure.

5. So, we want to temporarily open up SBA's 504 program to owner-occupied commercial real estate refinancing. It's critically important that we prevent creditworthy firms here in Arizona and across the country from facing unnecessary foreclosure and lost jobs. 504 refinancing will allow them to lock in stable, long-term financing, while freeing up banks to make even more small business loans.

This plan is guided by basic principles: build on what works, maximize limited taxpayer dollars, and make targeted changes as quickly as possible. It addresses specific gaps in demand, availability of credit, and risk tolerance. As we continue to work with Congress to implement this "small business jobs agenda" through the legislative process, the SBA is confident that this plan will allow us to continue to help small businesses in this tough economic climate.

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

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

- Our Arizona District Office here in Phoenix, as well as our offices in Tucson and Show Low
- 18 Small Business Development Centers throughout the state
- Our Women's Business Center in Tucson, our national award winning veteran's service officer who covers all of Arizona, and
- Three chapters of SCORE, our executive mentoring service that counsels in 23 locations throughout Arizona

I want to thank you all for holding this hearing to highlight both the current credit conditions for small businesses as well as efforts by government agencies such as the SBA to get them the support they need. I am now happy to discuss any of the SBA's proposals and answer any questions.

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