



SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

Opening Statement for
“The Recovery Act for Small Businesses: What is Working and What Comes Next?”

October 5, 2009 at 10:00 a.m.
Room 485 of the Russell Senate Office Building

(As prepared)

Good morning and thank you all for joining me today.

In the past year we have seen the worst economic conditions since the great depression, making it more critical than ever for small business owners to have easy access to capital and federal contracts to help small firms increase sales and keep Americans employed.

To address this concern, Congress passed and President Obama signed the Recovery Act, which included several provisions Senator Snowe and I fought for, such as:

- Elimination of fees for SBA-backed loans;
- Increased guarantee on 7(a) loans;
- Authority for \$50 million more in microloans and \$24 million more in management assistance;
- Increased funding (\$15 million) to boost the number of SBA backed surety bonds; and
- Senator Cardin’s provisions to increase the size of SBA backed surety bonds from \$2 million to \$5 million and up to \$10 million dollars per project.

One controversial provision inserted during Conference undercuts small businesses – an exemption for the NIH from participation in the SBIR and STTR programs.

Oversight of the Recovery Act has been a priority for this Committee. In May we held two hearings, one on the implementation of the finance provisions and access to alternative capital and the second on small business contracting. In June Senator Cardin held a field hearing on the NIH’s exemption from the SBIR and STTR programs; and in the last two weeks, we have had roundtables on capital and contracting that partly examined the Recovery Act provisions.

Today we are here to learn from the Administration the progress of these provisions and the status of provisions that have not been implemented. We are also here to report to you what we heard from small businesses, business organizations and advocates, and lenders on Main Streets throughout the country – what still needs to be done to help entrepreneurs gain access to capital and contracting?

Specifically, we plan to discuss:

- The status and effectiveness of Recovery Act changes to the SBA’s finance programs.
- The exemption of NIH from participating in the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs.

- The status of federal contracting changes under the Recovery Act.

SBA loan programs are vital to the strength of our nation's entrepreneurs, representing 40 percent of all long-term financing. However, lending through these programs dropped by more than 50 percent just when traditional lenders started turning small businesses away and these businesses needed the SBA and its programs more than ever.

Thankfully, the Recovery Act changes are working. How do we know? The answer is in the numbers. Since the President signed the Recovery Act, weekly loan volume has increased by more than 60 percent, according to new numbers the SBA released last week. The dollar volume for September reached \$1.9 billion – the highest single-month total since August 2007. More than 1,200 lenders who had not made a loan since the credit crunch have begun making SBA loans. With the help of these programs, small businesses have created or retained about 325,000 jobs.

[Note: See attached chart "Monthly Gross 7(a) and 504 Loan Approvals."]

Not only are we seeing progress in the numbers on paper, but small businesses are telling us that these changes are working. Michael Heath, owner of Ramunto's (*Ra-mun-toes*) Pizza in Vermont, told my Committee just last week at one of our roundtables the elimination of fees associated with the 7(a) program made it possible for him to get a loan.

Then there is Sandra Custis (*Sawn-dra / Coos-tis*), owner of Crystal Enterprises in Maryland. Sandra was able to get a \$300,000 7(a) loan because of what she called "the great rate and no fees". Sandra would not have been able to get the loan if she had to pay the approximately \$4,500 in fees. Because of the loan, Sandra expanded her business, opening another location in Missouri and adding 34 employees.

Because of these provisions – and others – within the Recovery Act, small businesses are helping to dig us out of this recession. That is the good news.

The bad news is that, because of the success of these programs, the funding allotted for the fee reductions and higher guarantees may run out by late November or early December.

We should consider ways to preserve the most effective provisions from the Recovery Act and make other changes to these programs that will ensure small businesses have access to the size and type of loans they need and, equally important, to encourage lenders to participate in the programs.

There is one provision within the Recovery Act that should not have made it in and needs to be changed. The provision, which provided \$8.2 billion to the National Institutes of Health (NIH), exempted NIH from the requirement that 2.8 percent of its extramural Research and Development money be used for the SBIR and STTR projects with small businesses.

[Note: See attached chart with Recovery Act Conference Report language.]

This provision cheated small businesses out of as much as \$230 million in work, and it directly counters the goals of the Recovery Act to create high-paying jobs, spur innovation and boost America's competitiveness. The SBIR and STTR programs have a proven track record in these areas.

As I mentioned earlier, Senator Cardin held a hearing on this matter in June, and Senator Snowe and I sent a joint letter in March to HHS. Senators Cardin and Feingold also sent a letter. NIH has made

some efforts to include small businesses in their Recovery Act spending since we started raising the issue last spring. However, their efforts are small and have fallen well short of restoring the full amount of spending to the SBIR and STTR programs.

The anger from the small business community over this exemption has not waned, and I am very interested to hear today about realistic ways to help NIH make up the \$230 million that should have gone to SBIR and STTR.

It is also vital that we increase small businesses' ability to gain access to federal contracts – especially those that are funded by Recovery Act dollars during these challenging financial times.

With the federal government being the largest purchaser in the world, it is uniquely positioned to help small businesses of every shape, size and product offering increase sales. Increased sales for small businesses means increased job growth in America and a quicker road to recovery.

To ensure that agencies are doing everything they can to include small businesses in Recovery Act spending, I have written a letter asking that each agency give the Committee a rundown of their Recovery Act contracting numbers by the 15th of each month.

We received our first report on the 15th of last month and we have the two highest spending agencies with us today. We need to understand what they are doing right and what they could improve on going forward. As you all know, we are moving quickly to spend a more than \$60 billion through the end of the next fiscal year in this Recovery Act. We cannot wait until the money is spent to start evaluating whether small businesses are being included. That oversight must start now and it must be continuous.

We have an opportunity to positively impact small businesses through the Recovery Act. President Obama has pledged to help small businesses through federal contracting opportunities and I will do the same. We all know that there is still much work to be done.

While it is clear that most of the small business provisions within the Recovery Act are working, we certainly still have our work cut out for us. With small businesses making up the largest source of employment in this country and the national unemployment rate now almost 10 percent, we need to figure out what else we can do to build on and maximize the provisions in place. Doing so could mean:

- More government contracts in the hands of Main Street businesses instead of multinational corporations;
- More inventory on store shelves because owners did not need to pay money to get a loan; and
- More Americans getting paychecks because the government was willing to invest just slightly more in the dreams of our entrepreneurs.

I hope we can use this hearing to improve upon our past efforts and explore new ideas to help our small businesses.

With that, I would now like to turn to my Ranking Member, Senator Snowe, for her opening statement.