Small Business Administration: Overview and Issues

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Summary

Legislation creating the Small Business Administration (SBA) was signed into law (P.L. 83-163) in 1953, early in President Eisenhower’s first term in office. Successor to several agencies created during the “Great Depression” and World War II, the SBA was created on a temporary basis to address several perceived problems facing small business — problems that were accentuated by large-scale mobilization of American industry for national security. The enabling law declared it to be the policy of Congress that the federal government should aid, counsel, assist, and protect insofar as is possible the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for government be placed with small business enterprises, and to maintain and strengthen the over-all economy to the nation.

As the SBA closes in on a half a century of effort to champion those broad policy goals, the agency has in the past few years substantially expanded its financial assistance to small businesses, streamlined and decentralized its operations, and — in general — been credited with being better managed. Still, the SBA and its various programs continue to spark debate about its open-ended, multifaceted mission, and raise the core question: Does a $7 trillion dollar economy — an economy in which 97% of firms are classified as “small businesses” — really need an agency to promote the interests of small firms?

Reauthorization and Appropriations Highlights, 1st Session

For the SBA, the 1st session of the 105th Congress produced positive results. The agency was reauthorized through FY2000, and it was given an increased appropriation for FY1998 that will support an expansion of its principal loan guarantee program.

Reauthorization. The “Small Business Reauthorization Act of 1997 (S. 1139, S.Rept. 105-62; H.R. 2261, H.Rept. 105-246) was signed into law (P.L. 105-135) by
President Clinton on December 2, 1997. Among a host of provisions, including ones intended to help SBA adopt more standard business practices when dealing with its lenders and its loan portfolio, the legislation incorporated the “HUBZone Act of 1997 (S. 208), an initiative designed to stimulate economic development in the nation’s most disadvantaged urban and rural communities as well as facilitate welfare-to-work.\footnote{More specifically, the HUBZone (Historically Underutilized Business Zone) legislation should make it easier for small businesses located in, and hiring employees from, economically distressed areas to get federal government contracts. To be eligible, a business must be small, must be located in a HUBZONE (as defined by Census data), and must hire not less than 35% of its workforce from a HUBZone.}

**Appropriations.** As passed by both houses on November 13, 1997 — and signed into law on November 26\textsuperscript{th} — the CJS (Commerce, Justice, and State, the Judiciary, and other related agencies) appropriations bill (P.L. 105-119) provides $716.1 million in total funding for SBA for FY1998, including $254.2 million for Salaries & Expenses (S&E). This figure is about $9.5 million more than the Senate-passed bill (S. 1022, S.Rept. 105-48) and $13.1 million less than the House-passed version (H.R. 2267, H.Rept. 105-207). For the agency’s 7(\textit{a}) \textit{General Business Loan Program}, the bill provides $161 million in subsidy appropriations; when combined with unobligated balances and additional recoveries, this amount will subsidize a program level of $10.2 billion at the FY1997 subsidy rate of 1.93%, instead of an $8.5 billion program level request in the President’s budget. For FY1999, the Administration has requested a total appropriation of $724 million for the SBA.\footnote{For a more detailed discussion of SBA’s recent appropriations see CRS Report 97-209, \textit{Appropriations for FY1998: Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies}, by Edward Knight, et.al.}

**SBA Programs**

The SBA administers a wide variety of loan programs and offers management counseling and training to all types of small firms. Eligibility for SBA assistance requires that the businesses be independently owned and operated, not dominant in their field, and meet SBA’s size standards. Space limitations in this report preclude a discussion of all of the agency’s programs; the following are among its most important.

**7(\textit{a}) \textit{General Business Loans.}** While the SBA administers numerous programs that provide financial and technical assistance to small firms, its 7(\textit{a}) \textit{General Business Loan Guaranty Program} is far and away the agency’s largest and most important in terms of number of loans and program level supported. It provides loan guarantees to eligible small businesses that have been unsuccessful in obtaining private financing on reasonable terms.

Under the 7(\textit{a}) guaranty loan program, the SBA is authorized to provide guarantees ranging from 75\% to 80\% of loans made by private lenders with the average guaranty being approximately 76\%. Nearly 7,000 banks and non-bank lenders are now approved to participate in the program. At present, SBA guaranteed loans are generally limited to amounts of $750,000 or less. The proceeds from an SBA loan may be used for virtually any business purpose.
Over the past 42 years, SBA has made or guaranteed more than 600,000 7(a) loans totaling approximately $80 billion. The size of the 7(a) program has grown dramatically in recent years, with loan approvals as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Loans</th>
<th>Dollar Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>19,057</td>
<td>$4.4 billion</td>
</tr>
<tr>
<td>1992</td>
<td>24,284</td>
<td>5.9 billion</td>
</tr>
<tr>
<td>1993</td>
<td>26,811</td>
<td>6.7 billion</td>
</tr>
<tr>
<td>1994</td>
<td>36,480</td>
<td>8.2 billion</td>
</tr>
<tr>
<td>1995</td>
<td>55,596</td>
<td>7.8 billion</td>
</tr>
<tr>
<td>1996</td>
<td>45,845</td>
<td>7.7 billion</td>
</tr>
<tr>
<td>1997</td>
<td>45,288</td>
<td>9.5 billion</td>
</tr>
</tbody>
</table>

SBA’s supporters maintain that the 7(a) program addresses the financing needs of small firms that are often not met in the private capital markets because commercial lenders do not provide loans for the purposes, in the amounts, and with the terms required by small business borrowers. Critics say the SBA serves only a tiny fraction of the nation’s small businesses, and most of the program’s borrowers could obtain their financing without the SBA’s help.

504 Certified Development Company Program. The 504 program provides permanent fixed rate financing for businesses needing to acquire industrial or commercial buildings or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA. The CDC agrees to provide financing to a small business borrower as part of a larger financing package.

Generally, a private lender agrees to provide 50% of the project cost in exchange for a first lien on the property or equipment being financed. The CDC (there are currently 290 in the nation) provides 40% of the project cost and receives a second lien position on the collateral. The borrower provides 10% of the project cost in the form of personal or business investment. The CDC finances its loan by the sale of a debenture to private institutional investors with the SBA guaranteeing the repayment of the debenture. Thus, the CDC is able to offer favorable rates and terms for the loans that it makes to the small business. The CDC’s share of a project is limited to $750,000 ($1 million, if the project meets a public policy goal). The borrower repays its debt directly to the CDC over a period of either 10 or 20 years.

Since 1980, more than $20 billion in fixed asset financing for over 25,000 small business concerns has been arranged by CDCs. This represents $7.4 billion in CDC debenture authorizations, and $12.6 billion in private sector and other financing.

Disaster Loan Program. SBA’s disaster loans are the primary form of federal assistance for nonfarm, private sector disaster losses caused by hurricanes, floods, earthquakes, and the like. Consequently, the disaster loan program is the only form of SBA assistance not limited to small businesses. It is also the agency’s largest direct loan program. The loan program’s low interest rates and long terms (up to 30 years) are intended to make recovery affordable. Disaster victims repay the loans to the Treasury.

Inasmuch as the need is unpredictable, the number and amount of SBA disaster loans have varied greatly over the years. Since 1953, the agency has approved over 1,274,000
disaster loans for more than $22.4 billion. In the aftermath of California’s Northridge earthquake in 1994, SBA approved over 125,000 loans for more than $4.1 billion.

**Minority Enterprise Development (MED).** The Office of Government Contracting and Minority Enterprise Development, under Section 8(a) of the Small Business Act, assists in the expansion of minority-owned and -controlled small businesses by awarding them government contracts.\(^3\)

Regulations limit program participation to firms at least 51% owned, controlled and operated by U.S. citizens who are socially and economically disadvantaged and have an adjusted personal net worth of $250,000 or less. If accepted, firms submit business plans and become eligible to seek 8(a) contracts from the federal government on a sole source or limited competition basis.

Through the 7(j) Management and Technical Assistance Program, 8(a) firms and other eligible small businesses receive help from professional management consultants. This program provides assistance in areas crucial to a firm’s success, growth and development, including but not limited to, accounting, marketing, bid and proposal preparation, executive education and industry-specific technical assistance.

7(j) program providers are selected through both competitive and sole source procurement. The SBA district offices administer the program at the local level and determine both the types of management and technical assistance needed, and how these are delivered to the client firms. Through seminars, workshops or one-on-one assistance, 7(j) providers complement public and private sector business development programs.

**Contracting.** Section 2(a) of the Small Business Act, 15 U.S.C. 631(a), sets forth as congressional policy that the federal government should ensure that a fair proportion of its procurement needs be placed with small business enterprises. The SBA establishes the appropriate size standards applicable to particular industries, and the agency determines which concerns qualify as small under the appropriate size standard, based either upon number of employees or annual receipts. (See the Code of Federal Regulations (CFR) — specifically, 13 CFR Part 121.)

**Small Business Investment Companies.** The Small Business Investment Company (SBIC) program is a partnership of public and private funds, in which SBA supplements the capital of private venture capital investment firms. The additional funds made available through SBA guarantees is referred to as “leverage.” So long as SBICs operate within the regulations under which they are licensed by SBA, these investment companies are controlled by their private owners and managers, who make all investment decisions. The entire private capital of an SBIC is always at risk ahead of the funding guaranteed by SBA.

Specialized SBICs (SSBICS) invest only in companies owned by persons whose participation in the free enterprise system is believed to be hampered by social or economic disadvantage.

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economical disadvantages. In return, SSBICs have been offered special incentives in the form of preferred stock and debentures subsidized by SBA. An Advisory Council of private sector experts in the field has recently completed a comprehensive review of this program, and its report is expected in 1996.

Over the past 35 years, SBICs have provided nearly $13 billion in over 100,000 financings of small business concerns, including more than $1 billion the past year. Through investments in new technologies, the program has enabled the conversion of scientific discoveries into high-growth businesses. Some SBICs invest in the equity or other permanent capital of small concerns, while others make long term loans, often with some equity rights. These “lender” SBICs provide expansion capital for businesses which can afford to pay interest, but need growth financing in excess of what is available from conventional borrowings.

Other SBA Programs. Other specialized programs administered by SBA, include: Small Business Innovation Research; Small Business Development Center; Microloan; Surety Bond; Office of International Trade; Veterans Affairs; and Women’s Business Ownership.

SBA’s Advocacy Role

Created by Congress in 1976, SBA’s Office of Advocacy is assigned the role of representing the views and interests of small business whenever those interest are affected by federal policy. The Chief Counsel for Advocacy testifies before Congress on behalf of the nation’s small businesses and often comments on the effects of proposed and final rules affecting small business.

The Small Business Regulatory Enforcement Fairness Act of 1996 (P.L. 104-121) requires the SBA to convene panels of small business representatives to consult with certain federal agencies — specifically, the Environmental Protection Agency, the Occupational Safety and Health Administration and other agencies in the Department of Labor — on the impact of draft proposed rules.

The agencies are required, in turn, to convene their own review panels to consider the report on the small business group’s comments. These panels consist of federal employees from the agency responsible for the rule, the White House Office of Management and Budget’s Office of Information and Regulatory Affairs, and the SBA Chief Counsel for Advocacy.

Outlook for 2nd Session of 105th Congress

The Government Performance and Review Act (GPRA) of 1993 (P.L. 103-62) requires agencies to set strategic goals, measure performance and report to the President and Congress on the degree to which goals were met, in an effort to reexamine and update the federal government’s spending priorities. All communities and organizations
receiving federal grants or other federal monies must abide by these new rules and will be required to provide information to help agencies comply with reporting requirements.⁴

The strategic plan issued by the SBA in September 1997 focuses on five program and policy goals as part of it plan:

- increase opportunities for small businesses to succeed, including increasing access to capital and business development;
- transform the SBA into a 21st century leading edge financial institution;
- help comminutes and families recover from disasters;
- lead small business participation in welfare-to-work; and
- serve as a voice for America's small businesses.

The SBA’s strategic plan was roundly criticized at an October 29, 1997, hearing by the House Small Business Committee. Committee members joined the General Accounting Office (GAO) in faulting the SBA for describing its mission and goals too broadly and not focusing enough attention on ways to measure the actual performance of its programs.⁵ As a consequence, more oversight on the agency’s compliance with GPRA can be expected.⁶

Similarly, it is anticipated that both the Senate and House small business committees will hold hearings on the agency’s implementation of the Small Business Regulatory Enforcement Act (SBREFA), discussed above under the heading “SBA’s Advocacy Role.”. Further information concerning the committees’ agendas as well as news releases, legislation, etc., can be found on their websites: http://www.house.gov/smbiz/ and http://www.senate.gov/comm/small_business/general/

Additional Information

Much information of interest to business concerning assistance available from the federal government is available on the World Wide Web. The U.S. Business Advisor is intended to provide business with one-stop access to federal government information, services, and transactions. Its Web address is: http://www.business.gov/ The SBA maintains its own site. Its address is: http://www.sbaonline.gov/ Information concerning laws and regulations affecting small business, statistics, research, and a host of other subjects are available from SBA’s Office of Advocacy at: http://www.sba.gov/ADVO/

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⁶ In fairness to the SBA, it should be noted that many agencies are struggling to develop plans that conform to the requirements of GPRA and to OMB’s guidance.