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Small Business Administration: Overview and Issues

Bruce K. Mulock
Specialist in Government and Business
Government and Finance Division

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 overall economy of the nation.

The SBA is working in partnership with the Federal Emergency Management Agency (FEMA) and other federal, state, and local agencies as well as the American Red Cross in support of the New York City Mayor's Office of Emergency Management (NYOEM) to assist the residents of New York City who were stricken by the September 11 terrorist attacks. The agency is also offering assistance to small businesses nationwide that have suffered economic injury directly related to the attacks. This report will be updated as events warrant or as required by legislative activity.

Response to Terrorist Attack. Following the terrorist attacks on the World Trade Center, the SBA dispatched employees from its headquarters and regional offices to augment its staff in New York. SBA loan officers are available in Disaster Recovery Centers located throughout the disaster area to assist business owners and individuals. SBA has long-standing disaster loan programs as well as other loan and managerial assistance programs that can help businesses deal with the aftermath of the terrorist attacks. (Details on SBA's response to the September 11 terrorist attacks can be accessed from the agency's home page at [http://www.sba.gov/].) Subsequent to the attacks, several emergency relief bills have been introduced in Congress to make additional firms eligible for SBA assistance under more favorable terms. In addition, the agency has acted administratively to provide greater access to its Economic Injury Disaster Loans (EIDL).[1]

Appropriations. Funding for SBA is included in appropriations legislation for Commerce, Justice, and State, the Judiciary, and Other Related Agencies (H.R. 2500)—so-called CJS appropriations. For FY2002, the Administration requested a total appropriation for SBA of $539 million (and an additional carryover balance of $37.9 million in the agency's Disaster Loan Programs account). At first glance, the request appeared to represent a significant cut in support for the agency's mission. In December 2000, Congress approved a total FY2001 appropriation for SBA of $899.5 million.[2] Thus, the FY2002 request represented a decrease of $360.5 million from the previous year. SBA's FY2002 budget request, however, asserted that the agency would actually be able to maintain or increase its assistance to small business with reduced resources. SBA proposed to accomplish this feat by increasing user fees and restructuring disaster relief funding.

On June 27, 2001, the House CJS Subcommittee marked up and passed by voice vote its CJS appropriation, which recommended $727.9 million for the SBA for FY2002, a request that includes $303.6 million for Salaries and Expenses (S&E).[3] Notably, the recommendation included $77 million for the guaranteed loan subsidy for the 7(a) program, whereas—as noted above—the Administration sought to offset the subsidy cost by increasing user fees. The full House increased SBA's funding to $744.9 million with transfers from the Department of State and the Department of Commerce. The Senate Appropriations Committee recommended $773.5 million, $28.6 million more than the House-passed level and $231.5 million more than was requested.[4]

The conference report (H.Rept. 107-278) was signed into law (P.L. 107-77) on November 28th; it provides the SBA with a total appropriation of $768.5 million for FY2002, including $308.5 million for S&E.

SBA Reauthorization in the 106th Congress. On the final day of the 106th Congress, the Small Business Reauthorization Act of 2000 (H.R. 5667) was passed by cross-reference as part of the Consolidated Appropriations Act for FY2001 (P.L. 106-

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[1] For more information on SBA disaster assistance, the agency's response to date, a summary of proposed legislation, etc., see CRS Report RS21061, *Small Business Disaster Assistance: Responding to the Terrorist Attacks*, by Bruce K. Mulock.

[2] Legislation funding the SBA for the current fiscal year (FY2001) was passed on the final day of the 106th Congress and signed into law (P.L. 106-553) by President Clinton on December 21, 2000. It provides the agency with a total appropriation of $899.5 million for FY2001, including $410.6 million for Salaries and Expenses (a category that includes funding for 19 SBA non-credit programs).

[3] For the SBA, the category "Salaries and Expenses" includes a host of non-credit programs and initiatives.

[4] For detailed information, see CRS Report RL31009, *Appropriations for FY2002: Commerce Justice, and State, the Judiciary, and Related Agencies.*

554).[5] The reauthorization legislation added a New Markets Venture Capital program, expanded the Microloan program, simplified the loan guaranty fee structure, adopted SBA-backed incentives to lenders to make more of the smaller loans that newer and smaller entrepreneurs need, and made other significant changes.

SBA Programs.[6] 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 preclude a discussion of all of the agency's programs; the following are among its most important.

7(a) General Business Loans. While the SBA administers numerous programs that provide financial and technical assistance to small firms, its 7(a) 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 through normal lending channels. The program operates through private-sector lenders that provide loans which are, in turn, guaranteed by the SBA—the Agency has no funds for direct lending or grants.

Effective December 22, 2000, a maximum loan amount of $2 million has been established for 7(a) loans. However, the maximum dollar amount the SBA can guarantee is generally $1 million. Small loans carry a maximum guaranty of 85%. Loans are considered small if the gross loan amount is $150,000 or less. For loans greater than $150,000, the maximum guaranty is 75%. Nearly 7,000 banks and non-bank lenders are now approved to participate in the program.

Since its inception, the 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:

Fiscal Year	Number of Loans	Dollar Amount
1991	19,057	4.4 billion
1992	24,284	5.9 billion
1993	26,811	6.7 billion
1994	36,480	8.2 billion
1995	55,596	7.8 billion
1996	45,845	7.7 billion
1997	45,288	9.5 billion
1998	42,268	9.0 billion
1999	43,639	10.1 billion
2000	43,748	10.5 billion

[5] H.R. 5667, the Small Business Reauthorization Act of 2000, as enacted into law by Section 1(a)(9) of H.R. 4577.

[6] Detailed information on all SBA programs is available on the agency's website. Program descriptions below conclude with specific program URLs.

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. See [http://www.sba.gov/financing/fr7aloan.html].

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. See [http://www.sba.gov/financing/frcdc504.html].

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. See [http://www.sba.gov/disaster/].

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.

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. See [http://www.sba.gov/MED/].

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. Also see [http://www.sba.gov/GC/].

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 are 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 disadvantages. In return, SSBICs have been offered special incentives in the form of preferred stock and debentures subsidized by SBA.

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 lenders. See [http://www.sba.gov/INV/].

MicroLoan Program. SBA's Microloan Program is intended to fill a gap in the commercial marketplace, which makes obtaining financing especially difficult for those small businesses with the smallest borrowing needs and for those that require additional guidance and support to achieve competitive success. It also represents one of the first elements of the continuum of services that SBA provides to entrepreneurs and small business owners to assist them to start and grow their enterprises. SBA's Microloan Demonstration Program was authorized by P.L. 102-140, enacted in 1991. The program was modified several times by legislation, and was made permanent in 1997 as part of SBA's Reauthorization Act, P.L. 105-135. The microloan program has three components:

- SBA provides loans to organizations, "intermediaries" that, in turn, make loans to microenterprises in amounts up to $25,000. What makes this loan program unique is that SBA is also authorized to provide grant funding to the intermediaries allowing them to provide technical assistance and support to their borrowers. This grant funding supports the technical assistance that is provided as part of the microloan funding as well as the two other technical assistance components of the SBA Microloan Program.
- SBA is authorized to provide grants to experts in the microenterprise field, enabling them to train other microenterprise organizations to increase their skills in assisting microbusinesses.
- SBA is authorized to provide separate grant funding to additional "non-lending technical assistance providers." This enables these organizations to provide assistance to small entrepreneurs to enable them to secure private sector funding. See [http://www.sba.gov/financing/frmicro.html].

Small Business Development Centers (SBDC). The SBA administers the SBDC program to provide management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community and federal, state and local governments. Its purpose is to enhance economic development by providing small businesses with management and technical assistance. See [http://www.sba.gov/SBDC/mission.html].

Other SBA Programs. Other specialized programs administered by SBA:

Small Business Innovation Research: [http://www.sba.gov/SBIR/]
Surety Guarantees: [http://www.sba.gov/osg/]
Office of International Trade: [http://www.sba.gov/OIT/]
Veterans Affairs: [http://www.sba.gov/VETS/]
Women's Business Ownership: [http://www.sba.gov/womeninbusiness/]

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.

Additional Information on SBA. The World Wide Web is an invaluable resource for information on the SBA and small business issues. The agency's website is: [http://www.sbaonline.sba.gov/]. Information about SBA programs, new releases, testimony, links, etc., can readily be accessed from its expanded web site map: [http://www.sbaonline.sba.gov/map.html]. The web site of SBA's Office of Advocacy, at [http://www.sba.gov/ADVO/], offers information concerning laws and regulations affecting small business, statistics, research, and a host of other subjects.