Congressional Research Service

Small Business Administration: A Primer on Programs

Oscar R. Gonzales
Analyst in Economic Development Policy

June 22, 2011

Congressional Research Service

7-5700

www.crs.gov

RL33243

CRS Report for Congress

Prepared for Members and Committees of Congress

c11173008

Summary

The Small Business Administration (SBA) administers several programs to support small businesses, including loan guarantee programs to enhance small business access to capital; contracting programs to increase small business opportunities in federal contracting; direct loan programs for businesses, homeowners, and renters to assist their recovery from natural disasters; and small business management and technical assistance training programs to assist business formation and expansion.

Congressional interest in the SBA's loan and contracting programs has increased in recent years, primarily because small businesses are viewed as a means to stimulate economic activity, create jobs, and assist in the national economic recovery. Many Members of Congress also regularly receive constituent inquiries about SBA loans, the loan guarantee programs, and special contracting programs and this report provides an overview of these programs. In addition, after the enactment of the Small Business Additional Temporary Extension Act of 2011 (P.L. 112-17), the SBA's authorization is scheduled to expire on July 31, 2011.

This report is designed to assist Congress in the event that it considers the reauthorization of the SBA by providing a summary and analysis of the SBA's major programs, including changes made by the American Recovery and Reinvestment Act (P.L. 111-5) and the Small Business Jobs Act of 2010 (P.L. 111-240), and by referencing other CRS reports which examine these programs in greater detail.

This report will be updated to reflect legislative action and programmatic changes.

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Introduction

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The SBA's programs have detailed rules on program requirements and administration that are not covered in this report. Detailed information is available on the SBA's website, 15 U.S.C. 631 et seq., and in Title 13 of the Code of Federal Regulations.[1]

The Small Business Act states that continued free competition is "the essence of the American economic system."[2] It declares that it is the policy of Congress to ensure that a fair proportion of government contracts are awarded to small businesses and to support small businesses with financing, export support, and other means. Moreover, the act charges the SBA with representing small business interests in interactions with other government agencies.

The SBA also has programs to assist small businesses owned by women, service-disabled veterans, and the socially and economically disadvantaged. These programs provide participants training and reduced competition for government contracts.

SBA's origins can be traced to the Great Depression of the 1930s and World War II when concerns about unemployment and war production were paramount. The SBA replaced the Reconstruction Finance Corporation (RFC), which was created by the federal government in 1932 to provide funding for businesses of all sizes during the Depression and later financed war production. During the early 1950s the RFC was disbanded amidst charges of political favoritism in granting loans. In 1953, Congress passed the Small Business Act (P.L. 83-163) that created the SBA. The SBA has undergone many changes since 1953. One key change is that it no longer makes direct loans to businesses or individuals except for disaster loans.

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

[2] P.L. 85-536, as amended.

As a general principle and following its statutory mandate, the SBA is willing to accept a higher level of default risk than other lenders will (through its loan guarantees), but there is a limit to the amount of risk it is willing to accept. Although the SBA does not make direct loans (except in the case of disasters), it may be responsible for covering up to 90% of loan guarantees in case of loan defaults. To manage risk, it seeks collateral and examines the borrower's ability to repay a loan. For example, loans and loan guarantees of more than $10,000 usually require collateral. Personal guarantees are required if the collateral is considered insufficient by the lender or the SBA. In short, these are loans that must be repaid, not grants that are not repaid.

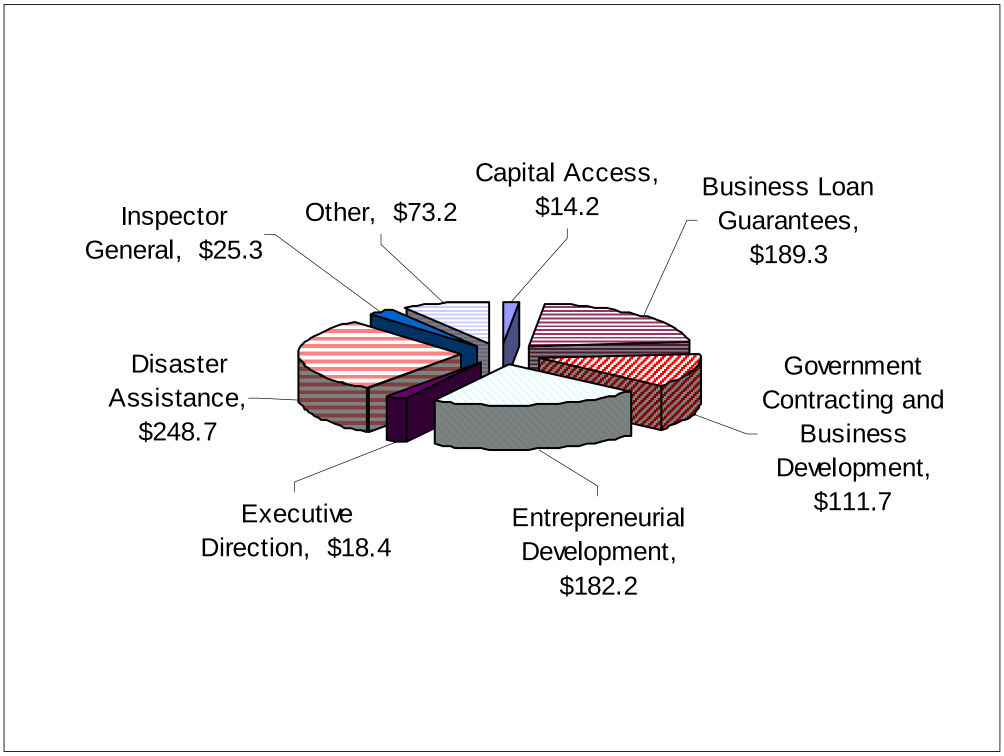
The SBA's FY2012 budget justification includes funding for the following programs and offices:

1. disaster loan program;
2. business loan guarantee programs (7(a) program, 504 Certified Development Company program, microloans and Small Business Investment Company loans);
3. government contracting and business development programs (some of which are limited to businesses owned by socially and economically disadvantaged groups);
4. capital access programs (international trade programs, new market venture capital programs, and surety bond programs);
5. entrepreneurial development programs (including Women's Business Ownership, and Small Business Development Centers);
6. SBA Office of the Inspector General (OIG);
7. executive direction programs (advocacy, National Women's Business Council, Ombudsman, and veteran's business development); and
8. a residual category, including regional and district office programs, and congressional grants.

Figure 1 shows the SBA's budget classified into these previously mentioned programs and offices.

Figure 1. Major SBA Program Areas, Cost by Program, FY2010

($ millions)



Source: U.S. Small Business Administration, *FY2012 Congressional Budget Justification*, Washington, DC, 2011, pp. 24-25.

Note: The SBA spent $863.0 million in FY2010. FY2011 data is not currently available and the SBA is required to provide a spending plan to Congress, pursuant to P.L. 112-10.

SBA Disaster Loans

Overview[3]

Disaster loans are available to individuals, small businesses, and non-profits in declared disaster areas. These loans are the only instances where the SBA makes loans to the ultimate borrower instead of guaranteeing loans that others make or supporting nonprofit lenders with loans.[4]

SBA disaster loans are some of the agency's best-known programs and the only ones that are not limited to small businesses.[5] The disaster loan programs have been the subject of regular congressional and media attention because of complaints about slow processing of loan

[3] For additional information, see CRS Report R41309, *The SBA Disaster Loan Program: Overview and Possible Issues for Congress*, by Bruce R. Lindsay.

[4] 13 C.F.R. § 123.105 and 13 § 123.203.

[5] 13 C.F.R. § 123.

applications. The SBA does not view these programs as immediate assistance, but the public is frequently looking for a rapid response.

Types of Disaster Loans

The SBA Disaster Loan Program includes the following categories of loans for disaster-related losses: Personal Property Loans, Real Property Disaster Loans, Physical Disaster Loans, and Economic Injury Disaster Loans (EIDL). An estimated 80% of SBA disaster assistance is made available to individuals and households rather than businesses. SBA disaster assistance is provided in the form of loans, not grants, and therefore must be repaid to the federal government.

Homeowners, renters, and personal property owners located in a declared disaster area (and in contiguous counties) may apply to SBA for loans to help recover losses from the disaster. Only victims located in a declared disaster area (and contiguous counties) are eligible to apply for disaster loans. Disaster declarations are "official notices recognizing that specific geographic areas have been damaged by floods and other acts of nature, riots, civil disorders, or industrial accidents such as oil spills."[6] Five categories of declarations put the SBA Disaster Loan Program into effect. These include two types of presidential major disaster declarations as authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford Act),[7] and three types of SBA declarations.[8]

SBA's Individual and Homeowner Disaster Loan Program falls into two categories: personal property loans and real property loans. These loans cover only uninsured or underinsured property and primary residences. Loan maturities may be up to 30 years. Disaster loans to businesses and non-profits are also discussed below.

Disaster Loans to Individuals and Homeowners

Individuals can obtain loans for both personal property such as cars and furniture, and to repair homes destroyed. Loans are limited to uninsured losses. The maximum term for SBA disaster loans is 30 years but the law restricts businesses with credit available elsewhere to a maximum three-year term. The SBA sets the installment payment amount and corresponding maturity based upon each borrower's ability to repay.

Personal Property Loans

A personal property loan provides a creditworthy homeowner or renter with up to $40,000 to repair or replace personal property items such as furniture, clothing, or automobiles damaged or lost in a disaster. These loans cover only uninsured or underinsured property and primary residences and cannot be used to replace extraordinarily expensive or irreplaceable items such as antiques or recreational vehicles. Interest rates vary depending on whether applicants are able or unable to obtain credit elsewhere. For applicants who can obtain credit without SBA assistance,

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[6] 13 C.F.R. § 123.2.

[7] P.L. 93-288, 42 U.S.C. 5721 et seq.

[8] Disaster declarations are published in the *Federal Register* and can also be found on the SBA website at http://www.sba.gov/services/disasterassistance/basics/recentdisaster/SERV_RECENT_WV_11750.html.

the interest rate may not be more than 8% per year. For applicants who cannot obtain credit without SBA assistance, the interest rate may not be more than 4% per year.[9]

Real Property Loans

A creditworthy homeowner may apply for a "real property loan" of up to $200,000 to repair or restore the homeowner's primary residence to its pre-disaster condition.[10] The loans may not be used to upgrade homes or build additions, unless upgrades or changes are required by city or county building codes. A real property loan may be increased by 20% for repairs to protect the damaged property from a similar disaster in the future. The interest rate for real property loans is determined in the same way as it is determined for personal property loans.

Disaster Loans to Businesses and Nonprofits

There are several types of loans, discussed below, available to businesses and nonprofits located in counties covered by a presidential disaster declaration. In certain circumstances, the SBA will also make these loans available when a governor, the Secretary of Agriculture, or the Secretary of Commerce makes a disaster declaration. Physical disaster loans are available to almost any nonprofit or business. The other business disaster loans are limited to small businesses.

Physical Disaster Loan

Any business or nonprofit, regardless of size, can apply for a physical disaster business loan of up to $2 million for repairs and replacements to real property, machinery, equipment, fixtures, inventory, and leasehold improvements that are not covered by insurance. Nonprofits that are rejected or are approved by the SBA for less than the requested amount for a physical disaster loan are in some circumstances eligible for grants from the Federal Emergency Management Agency (FEMA). Interest rates for Business Physical Disaster Loans for businesses must be no lower than 4% and no higher than 8%.[11]

Economic Injury Disaster Loans

Economic Injury Disaster Loans (EIDL) are limited to small businesses. If the Secretary of Agriculture designates an agriculture production disaster, small farms and small cooperatives are eligible. EIDLs are available in the counties included in a presidential disaster declaration and contiguous counties. The loans are designed to provide small businesses with operating funds until the business recovers. The maximum loan is $2 million and the terms are the same as personal and physical disaster business loans. The loan can have a maturity of up to 30 years and has an interest rate of 4% or less.[12]

[9] 13 C.F.R. § 123.105(a)(1).

[10] 13 C.F.R. § 123.105(a)(2).

[11] 13 C.F.R. § 123.203.

[12] 13 C.F.R. § 123.302.

SBA Small Business Financial Programs

Overview[13]

The SBA has four types of programs to directly support small businesses that are not disaster-related. The first are loan guarantees in which the SBA guarantees loans to small businesses that the private sector would otherwise be unwilling to make.

The second are contracting programs for small businesses that can involve sole source, limited competition, and cost advantages in government contract competitions. Sometimes the use of small business subcontractors is an evaluation factor for the prime contractor. When a government agency is planning a procurement, it chooses between one of these vehicles, and one in which there are no special advantages for small businesses.

The third are "capital access" programs that indirectly provide equity funding for small businesses and improve access to capital markets through SBA guarantees.

The fourth are entrepreneurial development programs to provide training to small business owners mostly using volunteers and nonprofits.

With few exceptions, to qualify for SBA assistance, an organization must be both a business and small.[14]

What Is a Business?

To participate in any of the SBA programs, a business must meet the SBA's definition of "small business." This is a business that

- is organized for profit;
- has a place of business in the United States;
- operates primarily within the United States or makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor;
- is independently owned and operated; and
- is not dominant in its field on a national basis.[15]

The business may be a sole proprietorship, partnership, corporation, or any other legal form.

[13] For additional information, see CRS Report R40860, *Defining Small Business: A Historical Analysis of Contemporary Issues*, by Robert Jay Dilger.

[14] The SBA provides financial assistance to non-profit organizations to provide training to small business owners, and to provide loans to small businesses through the SBA Microloan program. Also, non-profit childcare centers are eligible to participate in SBA's Microloan program.

[15] 13 C.F.R. § 121.105.

What Is Small?

The SBA uses two measures to determine if a business is small: SBA-derived industry specific size standards or a combination of the business's net worth and net income. For example, businesses participating in the SBA's 7(a) loan guarantee program, including its express programs, are deemed small if they meet the SBA's industry-specific size standards for firms in 1,159 industrial classifications described in the North American Industry Classification System (NAICS) or if they do not have more than $15 million in tangible net worth and not more than $5 million in average net income after federal taxes (excluding any carry-over losses) for the two full fiscal years before the date of the application. All of the company's subsidiaries, parent companies, and affiliates are considered in determining if it meets the size standard.[16]

The SBA's industry size standards vary by industry, are designed to encourage competition within the industry, and are based on one of the following four measures: the firm's (1) average annual receipts in the previous three years, (2) number of employees, (3) asset size, or (4) for electrical power industries, the extent of its power generation. Historically, the SBA has used the number of employees to determine if manufacturing and mining companies are small and average annual revenue for most other industries.

As a starting point, the SBA presumes $7.0 million as an appropriate size standard for the services, retail trade, construction, and other industries with receipts based size standards; 500 employees for the manufacturing, mining, and other industries with employee-based size standards; and 100 employees for the wholesale trade industries. These three levels, referred to as "anchor size standards," are used by the SBA as benchmarks or starting points when establishing its size standards. To the extent an industry displays "differing industry characteristics" necessary to enable small businesses to compete successfully with larger businesses within that industry, the SBA will consider a size standard higher, or in some cases lower, than an anchor size standard.[17]

Overall, more than 99.7% of all businesses are considered small by the SBA.[18] These firms account for approximately half of the nation's gross domestic product, half of the nation's total employment, and 44% of the nation's private sector payroll.[19]

Loan Guarantees

Overview

The SBA provides loan guarantees for small businesses that cannot obtain commercial loans. The SBA requires personal guarantees from owners and shares the risk of default with the lender by

[16] 13 C.F.R. § 121.201; and P.L. 111-240, the Small Business Act of 2010, Sec. 1116. Alternative Size Standards.

[17] U.S. Small Business Administration, Office of Government Contracting and Business Development, "SBA Size Standards Methodology," Washington, DC, April 2009, pp. 1-8, http://www.sba.gov/idc/groups/public/documents/sba_homepage/size_standards_methodology.pdf.

[18] U.S. Small Business Administration, "Table of Small Business Size Standards Matched to North American Industry Classification System Codes," Washington, DC, http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sstd_tablepdf.pdf; and U.S. Small Business Administration, "Fiscal Year 2010 Congressional Budget Justification," Washington, DC, 2009, p. 75, http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_budget_2010_justification.pdf.

[19] U.S. Census Bureau, *Statistics of U.S. Businesses: 2007*, Washington, DC, http://www.census.gov/econ/susb/.

making the guarantee less than 100%. In the event of a default the borrower still owes the amount contracted less the value of any collateral liquidated. The SBA can attempt to recover the unpaid debt through administrative offset, salary offset, or IRS tax refund offset. Most types of business are eligible for loan guarantees, but a few are not. These excluded business lines include real estate investment firms, financial speculation and intermediaries, pyramid sales, illegal activities, and gambling.[20] With one exception, nonprofit and charitable organizations are also ineligible.[21]

Prepayment

The SBA charges a prepayment penalty on loans applied for on or after December 22, 2000. This is a "subsidy recoupment fee" and applies only to loans of 15 or more years when the borrower makes the repayment in the first three years after the first loan disbursement, and when the repayment is more than 25% of the loan amount. The fee is 5% of the prepayment in the first year, 3% in the second, and 1% in the third year.[22]

Fees

The SBA collects fees from lenders to help offset the costs of loan defaults and for administering its loan guarantee programs. Since 2005, the SBA has set these fees with the goal of achieving a zero subsidy rate, meaning that the loan guarantee program does not require annual appropriations of budget authority for new loan guaranties. For example, for 7(a) loans with a maturity exceeding 12 months the SBA charges the lender a 2% guarantee fee for the SBA guaranteed portion of loans of $150,000 or less, a 3% guarantee fee for the SBA guaranteed portion of loans exceeding $150,000 but not more than $700,000, and a 3.5% guarantee fee for the SBA guaranteed portion of loans exceeding $700,000. 7(a) loans with an SBA guaranteed portion in excess of $1 million are charged an additional 0.25% guarantee fee on the guaranteed amount in excess of $1 million. These loans are also subject to an ongoing servicing fee of 0.55% of the outstanding balance of the guaranteed portion of the loan.[23] Lenders are also authorized to collect fees from borrowers to offset their administrative expenses.

In 2009 and 2010, Congress provided $963 million to temporarily eliminate some of the SBA's fees. For example, the Small Business Jobs Act of 2010 (P.L. 111-240) provided $510 million to subsidize fees in the SBA's 7(a) and 504/CDC loan guarantee programs from its date of enactment (September 27, 2010) through December 31, 2010.

Maturity

SBA-guaranteed loans generally have longer terms to maturity than other business loans. The maximum loan term is 25 years for real estate. For fixed capital equipment, the maximum term is the lesser of 25 years or the life of equipment financed. For working capital it is seven years. There are some exceptions. For example, if a borrower is likely to be unable to repay a working

[20] A list of ineligible businesses, such as non-profit businesses, insurance companies, and businesses deriving more than one-third of gross annual revenue from legal gambling activities, is contained in 13 C.F.R. § 120.110.

[21] P.L. 105-135, the Small Business Reauthorization Act of 1997, expanded the SBA's Microloan program's eligibility to include borrowers establishing a nonprofit childcare business.

[22] 13 C.F.R. § 120.223.

[23] 15 U.S.C. 636(a)(23)(a).

capital loan in seven years, the SBA can allow a longer term, such as 10 years, if that makes the loan viable.

Use of Proceeds

The SBA will guarantee loans for most business purposes. Exceptions to this are refinancing existing debt where the lender is in a position to absorb a loss, and the SBA would be responsible for the loss because of the refinancing; financing a partial change in ownership; paying funds owed to the owner; paying delinquent taxes that should have been escrowed; and non-business purposes. The SBA will guarantee loans to farms, but it recommends that the borrower contact the Farm Service Agency first.

Other Sources

The SBA requires borrowers to demonstrate a need for the desired credit and requires lenders to certify that the desired credit is unavailable to the borrower on reasonable terms and conditions from non-federal sources without the SBA's assistance.[24] If a portion of the entire loan amount is not available without an SBA guarantee, the SBA may guarantee that portion.

7(a)[25]

The main SBA guarantee program is the 7(a) loan guarantee, which is named after the section of the Small Business Act that authorizes it. These are loans made by SBA partners (mostly banks, but also some other financial institutions) and partially guaranteed by the SBA. Despite the offer from the SBA to guarantee a loan, a lender does not have to make it. The SBA has created variations on the 7(a) program for special purposes. It has also created expedited processing with selected lending partners called certified lenders and preferred lenders. **Table 1** provides the information on the maximum loan amount, maturity, maximum interest rates, and guarantee fees for the 7(a) program.

[24] 13 C.F.R. § 120.100; 13 C.F.R. § 120.101; and 13 C.F.R. § 120.102.

[25] For additional information, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger.

Table 1. Summary of Key Features for 7(a) Loan Guarantee Program

Reflects changes made by the Small Business Jobs Act of 2010 (P.L. 111-240)

	7(a) Loan Guarantee
Purpose	Fixed assets, working capital, financing of start-ups or to purchase an existing business; some debt payment allowed, but lender's loan exposure may not be reduced with the Express products. Lines of credit are offered with the Express programs.
Maximum Loan Amount	$5 million.
Maturity	5 to 7 years for working capital, up to 25 years for equipment & real estate. All other loan purposes would have a maximum term of 10 years.
Maximum Interest Rates	Base rate plus 2-1/4% for maturities under 7 years. Base rate plus 2-3/4% for maturities of 7 years or longer. Loans of $50,000 or less may add an additional 1% and loans under $25,000 may add an additional 2%.
Guarantee Fees	A fee of 0.25% of the guaranteed portion of the loan is charged for loans with maturities of 12 months or less. For loans with maturities over 12 months, the fees are 2% for loans of $150,000 or less; 3% for loans of $150,001 to $700,000; 3.5% for loans over $700,000; and 3.5% for the guaranty portion over $1 million. There is an on-going fee of 0.55%.
Job Creation	No job creation requirements.

Source: Table compiled by CRS from data from the Small Business Administration.

Note: In 2009 and 2010, Congress provided $963 million to temporarily eliminate some of the SBA's fees. For example, the Small Business Jobs Act of 2010 (P.L. 111-240) provided $510 million to subsidize fees in the SBA's 7(a) and 504/CDC loan guarantee programs from its date of enactment (September 27, 2010) through December 31, 2010.

Variable-rate loans can be pegged to either the prime rate or the SBA optional peg rate, which is a weighted average of rates that the federal government pays for loans with maturities similar to the guaranteed loan. The spread over the prime rate or SBA optional peg rate is negotiable between the borrower and the lender, but no more than 6%. The adjustment period can be no more than monthly and cannot change over the life of the loan.

Variations on the 7(a) Program

The 7(a) program has four specialized programs that offer streamlined and expedited loan procedures for particular groups of borrowers, the SBAExpress program, the Small Loan Advantage Program, Community Advantage Program, and the Patriot Express Program. Lenders must be approved by the SBA for participation in these programs. For example, the SBAExpress program was established as a pilot program by the SBA on February 27, 1995, and made permanent through legislation, subject to reauthorization, in 2004 (P.L. 108-447, the Consolidated Appropriations Act, 2005). The program is designed to increase the availability of credit to small businesses by permitting lenders to use their existing documentation and procedures in return for receiving a reduced SBA guarantee on loans. It provides a 50% loan guarantee on loan amounts up to $350,000. However, the Small Business Jobs Act of 2010 (P.L. 111-240) temporarily increased the program's loan limit to $1 million for one year following enactment (until September 27, 2011). The loan proceeds can be used for the same purposes as the 7(a) program except participant debt restructuring cannot exceed 50% of the project and may be used for revolving credit. The loan terms are the same as the 7(a) program, except that the term for a revolving line of credit cannot exceed seven years.

The 504/CDC Loan Guarantee Program[26]

The 504/CDC loan guarantee program uses Certified Development Companies (CDCs), which are private, nonprofit corporations established to contribute to economic development within its communities. Each CDC has its own geographic territory. The program provides long-term, fixed-rate loans for major fixed assets such as land, structures, machinery, and equipment. Program loans cannot be used for working capital, inventory, repaying debt, or refinancing. A commercial lender provides up to 50% of the financing package, which is secured by a senior lien. The CDC's loan of up to 40% is secured by a junior lien. The SBA backs the CDC with a guaranteed debenture.[27] The small business must contribute at least 10% as equity. **Table 2** below summarizes key features of the 504 CDC loan program.

Table 2. Summary of Key Features for 504/CDC Loan Program

Reflects changes made by the Small Business Jobs Act of 2010 (P.L. 111-240)

	504 Certified Development Company Loan Program
Purpose	Fixed assets only - no working capital.
Maximum Loan Amount	Maximum CDC/504 participation in a single project is $5 million, and $5.5 million for manufacturers; minimum is $50,000. There is no limit on the project size.
Maturity	10 years for equipment; 20 years for real estate.
Maximum Interest Rates	Based on current market rate for 5 and 10 year Treasury Bonds.
Participation Requirements	504/CDC projects generally have three main participants: a third-party lender provides 50% or more of the financing; a CDC provides between 30% to 40% of the financing through a 504/CDC debenture, which is guaranteed 100% by the SBA; and the borrower contributes at least 10% of the financing. No more than 50% of eligible costs can be from federal sources.
Guarantee Fees	There is a 0.5% fee on the lender's share, plus the CDC may charge up to 1.5% on their share. CDC charges a monthly servicing fee of 0.625% to 1.5% on the unpaid balance. There is an on-going guaranty fee of 0.749% of the principal outstanding.
Job Creation Requirements	Must intend to create or retain one job for every $65,000 of the debenture ($100,000 for small manufacturers) or meet an alternative job creation standard if it meets any one of 14 Community or Public Policy Goals. A minimum down payment of 10% is required.

Source: Table compiled by CRS from data from the Small Business Administration.

Notes: The maximum loan amount is the total financial package including the commercial loan and the CDC loan. It does not include the owner's minimum 10% equity contribution. It assumes that the CDC loan is 40% of the total package.

Special Purpose Loan Guarantees

In addition to the general 7(a)-based loan guarantee programs, the SBA has special purpose loan guarantee programs for exports, adjusting to the North American Free Trade Agreement (NAFTA), Employee Stock Ownership Program trusts, pollution controls, and working capital.

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[26] For further analysis see CRS Report R41184, *Small Business Administration 504/CDC Loan Guaranty Program*, by Robert Jay Dilger.

[27] A debenture is a bond that is not secured by a lien on specific collateral.

Export Working Capital Loans. Export Working Capital Loans are a joint program between the SBA and the Export-Import Bank.

Export Express. The SBA's Export Express program guarantees loans for exporters to finance business development activities such as participating in foreign trade shows, translating brochures, and improving facilities.

International Trade Loans. International Trade Loans are available to small businesses that are exporting goods and services, those that are planning to become exporters, and those adversely affected by imports. Loan and guarantee maximums are the same as for the regular 7(a) loan guarantee program, but under special circumstances the maximum guaranteed amount can be increased.

Community Adjustment and Investment Program. The Community Adjustment and Investment Program (CAIP) uses federal funds to pay the fees on 7(a) and 504 loans to businesses located in communities that have been adversely affected by NAFTA.

Employee Trusts. The SBA will guarantee loans to Employee Stock Ownership Plans (ESOPs) that are used either to lend money to the employer or to purchase control from the owner. ESOPs must meet regulations established by the IRS, Department of the Treasury, and Department of Labor. These are 7(a) loans.

Pollution Control. The SBA has a special 7(a) program for small businesses to purchase pollution control equipment.

CAPLines. CAPLines are five special 7(a) programs designed to meet the requirements of small businesses for short-term or cyclical working capital. The maximum term is five years.

SBA Lender Programs

The SBA has programs for experienced 7(a) lenders that provide faster processing to borrowers. Speed is achieved because the SBA lets the lender do more of the work with less SBA review. The programs allow the SBA to guarantee more loans with fewer employees.

Certified Lenders Program

In the certified lenders program (CLP), the SBA's goal is to reach a decision on the guarantee within three business days. A certified lender can review an application for an SBA-guaranteed loan and process much, but not all, of the paperwork. The SBA does a credit and eligibility review instead of a complete verification of the data.

Preferred Lenders Program

In the preferred lenders program (PLP), the SBA delegates loan approval, closing, and most servicing and liquidation authority and responsibility to these selected lenders. The SBA continues to check loan eligibility. Since the SBA does not review individual loan applications, borrowers can receive funding in a matter of days.

Small Business Contracting Programs[28]

A number of programs assist small businesses in obtaining and performing federal contracts and subcontracts. These include various prime contracting programs; subcontracting programs; and other assistance (e.g., goaling program, Offices of Small and Disadvantaged Business Utilization).

Prime Contracting Programs

There are several special programs that allow small businesses to compete only with similar firms for government contracts, or receive sole-source awards in circumstances when such awards could not be made to other firms. These programs, which give small businesses a chance to win government contracts without having to compete against larger and more experienced companies, include the following:

- **8(a) Program:** The 8(a) Program (named for the section of the Small Business Act from which it derives its authority) is for businesses owned by persons who are socially and economically disadvantaged.[29] A firm that is certified by SBA as an 8(a) firm is eligible for set-aside and sole-source contracts. The SBA also provides technical assistance and training to 8(a) firms. Firms may participate in the 8(a) Program for no more than nine years.[30] As of December 2010, there were 9,154 firms with active certifications in the 8(a) program.[31]
- **Historically Underutilized Business Zone Program:**[32] This program assists small businesses located in Historically Underutilized Business Zones (HUBZones) through set-asides, sole source awards, and price evaluation preferences in full and open competitions.[33] The determination of whether or not an area is a HUBZone is based on criteria specified in 13 C.F.R. § 126.103. To be certified as a HUBZone small business, at least 35% of the small business's employees must generally reside in a HUBZone. As of December 2010, there were 9,458 firms with active HUBZone certifications.[34]
- **Service-Disabled Veteran-Owned Small Business Program:** This program assists service-disabled veteran-owned small businesses through set-asides and

[28] These programs apply government-wide, but are implemented under the authority of the Small Business Act pursuant to regulations promulgated by the SBA that determine, in part, eligibility for the programs.

[29] Section 8(a) of the Small Business Act, P.L. 85-536, as amended, can be found at 15 U.S.C 637(a). Regulations are in 13 C.F.R. 124. For recent legal developments, see CRS Report R40987, *"Disadvantaged" Small Businesses: Definitions and Designations for Purposes of Federal and Federally Funded Contracting Programs*, by Kate M. Manuel, and CRS Report RL33284, *Minority Contracting and Affirmative Action for Disadvantaged Small Businesses: Legal Issues*, by Jody Feder.

[30] See http://www.sba.gov/8abd/indexfaqs.html.

[31] Source: http://dsbs.sba.gov/dsbs/search/dsp_dsbs.cfm.

[32] For additional information, see CRS Report R41268, *Small Business Administration HUBZone Program*, by Robert Jay Dilger.

[33] See https://eweb1.sba.gov/hubzone/internet/. For recent legal developments relating to the priority given to the HUBZone program, see CRS Report R40591, *Set-Asides for Small Businesses: Recent Developments in the Law Regarding Precedence Among the Set-Aside Programs and Set-Asides Under Indefinite-Delivery/Indefinite-Quantity Contracts*, by Kate M. Manuel.

[34] Source: http://dsbs.sba.gov/dsbs/search/dsp_dsbs.cfm.

sole-source awards. For purposes of this program, veterans and service-related disabilities are defined as they are under the statutes governing veterans affairs.[35]

- **Women-Owned Small Business Program:** Under this program, contracts may be set aside for economically disadvantaged women-owned small businesses in industries in which they are underrepresented, and women-owned small businesses in which they are substantially represented.
- **Other small businesses:** Agencies may also set-aside contracts or make sole-source awards to small businesses not participating in any other program under certain conditions.

Subcontracting Programs for Small Disadvantaged Businesses

Other federal programs promote subcontracting with small disadvantaged businesses (SDBs). Agencies must negotiate "subcontracting plans" with the apparently successful bidder or offeror on eligible prime contracts prior to awarding the contract. Subcontracting plans set goals for the percentage of subcontract dollars to be awarded to SDBs, among others, and describe efforts that will be made to ensure that SDBs "have an equitable opportunity to compete for subcontracts." Federal agencies may also consider the extent of subcontracting with SDBs in determining to whom to award a contract, or give contractors "monetary incentives" to subcontract with SDBs. All 8(a) firms qualify as SDBs, but firms that are not participants in the 8(a) Program can also qualify as SDBs. As of December 2010, there were 10,996 certified SDBs.[36]

Goaling Program

The SBA also implements the "Goaling Program," to track agency performance in meeting their goals for the percentage of contract and subcontract dollars awarded to small businesses. Currently, the government-wide goal is that at least 23% of all contract dollars go to small businesses. There are also separate goals for the percent of contract and subcontract dollars awarded to: small disadvantaged businesses (5%); women-owned small businesses (5%); HUBZone small businesses (3%); and service-disabled veteran-owned small businesses (3%).

Office of Small and Disadvantaged Business Utilization

Every government agency with procurement authority has an Office of Small and Disadvantaged Business Utilization (OSDBU) to advocate within the agency for small businesses, as well as assist small businesses in their dealings with federal agencies (e.g., obtaining payment).

[35] It should be noted that veteran-owned small businesses and service-disabled veteran-owned small businesses are eligible for separate preferences in procurements conducted by the Department of Veterans Affairs under the authority of the Veterans Benefits, Health Care, and Information Technology Act, as amended by the Veterans' Benefits Improvements Act of 2008.

[36] Source: http://dsbs.sba.gov/dsbs/search/dsp_dsbs.cfm.

Capital Access Programs

Overview

The SBA has other programs to improve the access of small businesses to specific parts of capital markets. The most important of these are to guarantee performance (surety) bonds, provide special high technology contracting opportunities (small-business innovative research and small-business technology transfer programs), support equity investments (small-business investment companies), and provide technical assistance (small-business development centers).

Surety Bonds

A surety bond is a bond that a contractor purchases to guarantee that it will complete a contract. If the contractor fails to complete the contracted work, the surety bond is used to pay for completion. The SBA guarantees through the Surety Bond Guarantee program four types of surety bonds for individual contracts of $2 million or less for small businesses that cannot obtain surety bonds through regular commercial channels. First, it guarantees bid bonds to ensure that if a bidder wins a procurement competition the bidder will sign the contract. Second, it guarantees payment bonds that the contractor will pay suppliers and subcontractors. Third, it guarantees performance bonds that the contractor will complete the work as contracted. Fourth, it guarantees ancillary bonds that are required to guarantee the performance of the contract.

Small Business Innovation Research Awards

Small Business Innovation Research (SBIR) awards are competitive grants to small businesses (500 or fewer employees) to research and develop new ideas for selected government agencies. Government agencies with the largest research budgets fund the SBIR program. The SBA coordinates and oversees the SBIR program but does not provide funding for the awards. Phase I grants allow a company to determine if an idea has scientific and technical merit and is feasible. Phase II evaluates the idea's commercial potential. Phase III is private sector development of the idea. Phase I awards are for a maximum of $100,000 over six months, and phase II awards are for a maximum of $750,000 over more than two years. Intellectual property rights are protected for four years after the completion of phase I, phase II, or phase III.

Small Business Technology Transfer Awards

The Small Business Technology Transfer (STTR) program is similar to the SBIR program, but it requires the small business to work with a nonprofit research institute. The SBA coordinates and oversees the STTR program but does not provide funding for the awards. Phase I awards are a maximum of $100,000 for one year. Phase II awards are for a maximum of $500,000 over two years. While there is no STTR funding for phase III, the awarding agency may issue a sole source contract to a team that has successfully reached this stage.

Small Business Investment Company (SBIC) Loan Guarantee Program[37]

The SBIC program enhances small business access to venture capital by stimulating and supplementing the flow of private equity capital and long term loan funds available to small businesses to encourage their growth, expansion, and modernization. The SBA does not make direct investments in small businesses. It works with over 300 privately owned and managed small business investment companies (SBICs) licensed by the SBA to provide financing to small businesses with private capital the SBIC has raised and with funds the SBIC borrows at favorable rates because the SBA guarantees the debenture (loan obligation).

A licensed SBIC in good standing, with a demonstrated need for funds, may apply to the SBA for financial assistance (called leverage) of up to 300% of its private capital. However, most SBICs are approved for a maximum of 200% of its private capital and no fund management team may exceed the allowable maximum amount of leverage, currently $150 million per SBIC and $225 million for two or more licenses under common control.

SBICs pursue investments in a broad range of industries, geographies, and stage of investment. Some SBICs specialize in a particular field or industry in which their management has expertise, while others invest more generally. Most SBICs concentrate on a particular stage of investment (i.e., start-up, expansion, or turnaround) and identify a geographic area in which to focus.

The SBIC program currently has invested about $15.0 billion in small businesses, with about $8.7 billion raised from private capital and $6.3 billion guaranteed by the SBA. In FY2010, the SBA guaranteed $931 million in SBIC small business investments, and SBICs provided another $1.1 billion in investments from private capital, for a total of more than $2.0 billion in financing for 1,331 small businesses.[38]

Only businesses that meet the SBA's definition of small may participate in the SBIC program. They must meet either the SBA's size standard for the industry in which they are primarily engaged, or a separate financial size standard which has been established for the SBIC program. SBICs use the size standard that is most likely to qualify the company, typically the financial size standard for the SBIC program. It is currently set as a maximum net worth of no more than $18 million and average after-tax net income for the preceding two years of not more than $6 million. All of the company's subsidiaries, parent companies, and affiliates are considered in determining if it meets the size standard.[39]

New Market Venture Capital

New Market Venture Capital is a program that encourages equity investments in small businesses in low-income areas that meet specific statistical criteria established by regulation. A tax credit is available on a competitive basis.

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[37] For additional information, see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger and Oscar R. Gonzales.

[38] U.S. Small Business Administration, "Fiscal Year 2011 Congressional Budget Justification and FY2009 Annual Performance Report," Washington, DC, 2010, pp. 19, 51; and U.S. Small Business Administration, "FY2010 Congressional Budget Justification," Washington, DC, 2009, pp. 17, 42.

[39] 13 C.F.R. § 107.700; 13 C.F.R. § 107.710; 13 C.F.R. § 301(c)(2); and 13 C.F.R. § 301(c)(1).

Entrepreneurial Development[40]

Entrepreneurial development provides technical and managerial training to small businesses. Some of this is free and other training is at low cost and includes the Service Corps of Retired Executives, Small Business Development Centers, Women's Business Centers, and Native American Outreach programs.

The Service Corps of Retired Executives (SCORE) uses more than 11,000 volunteers to bring practical experience to start-up small business and to those thinking about starting a new small business.

Small Business Development Centers (SBDCs) provide free or low-cost assistance to small businesses using programs customized to local conditions. SBDCs support small business in marketing and business strategy, finance, technology transfer, government contracting, management, manufacturing, engineering, sales, accounting, exporting, and other topics. SBDCs are funded by grants from the SBA and matching funds. There are more than 1,100 SBDCs and at least one in every state and territory.

Women's Business Centers (WBCs) are similar to SBDCs, except they concentrate on assisting women entrepreneurs. There are WBCs in most states and territories.

The SBA's Office of Native American Affairs works to encourage native Americans (native American Indians, native Alaskans, and native Hawaiians) to start and expand small businesses.

Advocacy and Other

SBA's Office of Advocacy

The mission of the SBA's Office of Advocacy is to represent small businesses, small organizations, and small governments within the federal government and to promote research on small business. Among its activities are sponsoring and encouraging research into the role of small businesses in the national economy and encouraging federal agencies to specifically consider the impact of regulations on small businesses. Advocacy also includes the National Women's Business Council and the Veterans Business Development centers.

The National Women's Business Council (NWBC) is an independent office within the SBA charged with undertaking programs to support women-owned businesses.

The Office of Veterans Business Development encourages veterans who are interested in starting a small business or who own one.

[40] For further analysis see CRS Report R41352, *Small Business Management and Technical Assistance Training Programs*, by Robert Jay Dilger and Oscar R. Gonzales.

Legislative Activity

As mentioned in this report, several new programs and program changes have occurred as the result of ARRA and the Small Business Jobs Act of 2010. More detailed information on this legislation is available in CRS Report R41385, *Small Business Legislation During the 111th Congress*, by Robert Jay Dilger, Oscar R. Gonzales, and Gary Guenther; CRS Report R40985, *Small Business: Access to Capital and Job Creation*, by Robert Jay Dilger and Oscar R. Gonzales; and CRS Report R40241, *Overview and Analysis of Small Business Provisions in the American Recovery and Reinvestment Act of 2009*, by Oscar R. Gonzales and N. Eric Weiss. A brief overview follows.

ARRA

ARRA, P.L. 111-5, provided a total of $730 million to the SBA. Specifically, the act provided: $375 million set aside for reimbursements, loan subsidies, and loan modifications related to certain loans, and $255 million for loan guarantees of $35,000 or less in a new small business stabilization program also known as the America's Recovery Capital (ARC) loan program; (2) $30 million for expanding the SBA's microloan program; (3) $25 million for staffing up to meet demands for new ARRA programs; (4) $20 million to improve lender oversight; (5) an additional $15 million for the SBA's surety bond program and increases in the size of the maximum bond; and (6) $10 million for the Office of Inspector General.

The legislation also temporarily eliminated (or reduced as much as possible) fees in the 7(a) and 504 business loan programs and for lender oversight; allowed the SBA to guarantee certain loans that, in part, refinance existing business loans; authorized the SBA to guarantee pools of first lien CDC/504 loans sold to third party investors; increased the funds ("leverage") available to SBA-licensed Small Business Investment Companies (SBICs); required SBICs to invest at least 50% of their venture capital in low-income areas as defined by the New Market Venture Capital program (NMVC); and required SBICs to make 25% of their investments in "smaller" companies.

Small Business Jobs Act of 2010

P.L. 111-240, the Small Business Jobs Act of 2010, made several changes to SBA programs. The legislation increased the loan limits for the 7(a) program from $2 million to $5 million. The act increased the 504/CDC Program's loan limits from $2 million to $5 million for standard borrowers, and from $4 million to $5.5 million for manufacturers; and temporarily expanded for two years the eligibility for low-interest refinancing under the SBA's 504/CDC program for qualified debt. The law also amended the SBA Express Program, the SBA Microloan Program, the SBA secondary market program, the SBA size standards, and the SBA International Trade Finance Program. These changes are summarized in **Table 3** below.

In addition to changes to SBA programs, P.L. 111-240 included a $30 billion Small Business Lending Fund, a $1.5 billion State Small Business Credit Initiative, and about $12 billion in tax relief for small businesses.

Table 3. Selected Provisions, the Small Business Jobs Act of 2010

Issue/Program	The Small Business Jobs Act of 2010
SBA 7(a) Program	increased the 7(a) Program's loan limit from $2 million to $5 million.
SBA 504 Program	increased the 504/CDC Program's loan limits from $2 million to $5 million for standard borrowers, and from $4 million to $5.5 million for manufacturers; and temporarily expanded for two years the eligibility for low-interest refinancing under the SBA's 504/CDC program for qualified debt.
SBA Express Program	temporarily increased for one year the Express Program's loan limit from $350,000 to $1 million.
SBA Microloan Program	increased the Microloan Program's loan limit for borrowers from $35,000 to $50,000; and increased the loan limits for Microloan intermediaries after their first year in the program from $3.5 million to $5 million.
Temporary SBA fee subsidies and loan modifications	temporarily increased the SBA's guarantee on 7(a) loans to 90% and provided for the elimination of selected fees on the SBA's 7(a) and 504 loans through December 31, 2010.
SBA secondary market	extended the SBA's secondary market lending authority under ARRA from two years from enactment to two years from the first sale of a pool of first lien position 504 loans guaranteed under this authority.
SBA size standards	authorized the SBA to establish an alternative size standard for the SBA's 7(a) and 504 programs that would use maximum tangible net worth and average net income; and to establish an interim alternative size standard of not more than $15 million in tangible net worth and not more than $2 million in average net income for the two full fiscal years before the date of the application.
SBA International Trade Finance Program	increased the International Trade Finance Program's loan limit from $1.75 million, of which not more then $1.25 million may be used for working capital, supplies, or financings, to $4.5 million.

Source: Small Business Jobs Act of 2010.

Discontinued Programs

Over the years, the SBA has terminated many programs. Some of these cancellations were done administratively, others at the direction of Congress. In many cases key features of the programs were incorporated in other programs. In recent years the small loans program, FA$TRAK loan program (now called SBA Express, which continues), LowDoc loan program, handicapped assistance loan program, and disabled assistance loan program have been terminated. The SBA has ended its support of the veterans franchise program (VETFRAN), but the Department of Veterans Affairs continues its support.

Many features of the FA$TRAK and LowDoc programs were brought into the SBAExpress program, which is part of the 7(a) loan guarantee program. Those opposed to these changes believed that FA$TRAK and LowDoc offered borrowers and lenders advantages in the areas of collateral, fees, and lender participation requirements that SBA Express does not.

Proponents of eliminating the handicapped, disabled, and VETFRAN programs believed that these business owners did not face challenges that differed significantly from those of other small business owners.

Appropriations

The SBA's FY2010 appropriation was $824.0 million.[41] The SBA's FY2011 appropriation is $729.7 million, a reduction of $94.3 million from its FY2010 appropriation. The reductions include a 0.2% across-the-board rescission imposed by P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011.[42]

For FY2012, the Administration has requested $985.4 million for SBA programs. The Administration requested $427.3 million for salaries and expenses. Included in that amount is funding for non-credit programs, such as Historically Underutilized Business Zones (HUBZones), Microloan Technical Assistance, the National Women's Business Council, Native American Outreach, the Service Corps of Retired Executives (SCORE), Small Business Development Centers, Veteran's Business Development, and Women's Business Centers. The Administration also requested $167.3 million for the SBA's disaster loan program, and $390.8 million for all other SBA programs.

Author Contact Information

Oscar R. Gonzales
Analyst in Economic Development Policy
ogonzales@crs.loc.gov, 7-0764

[41] The SBA also received an additional $962.5 million in FY2010—$775.0 million in temporary funding for 7(a) and 504/CDC loan guaranty program fee subsidies and loan modifications, and $187.5 million for other SBA programs. P.L. 111-118, the Department of Defense Appropriations Act, 2010, provided $125 million, P.L. 111-144, the Temporary Extension Act of 2010, provided $60 million, P.L. 111-157, the Continuing Extension Act of 2010, provided $80 million, and P.L. 111-240, the Small Business Jobs and Credit Act of 2010, provided $510 million to provide temporary fee subsidies for the SBA's 7(a) and 504/CDC loan guaranty programs and to temporarily increase the 7(a) program's maximum loan guaranty percentage to 90%. P.L. 111-240 extended the subsidies and 90% loan guaranty through December 31, 2010, and provides $187.5 million for other SBA programs that are to remain available through FY2011. Also, P.L. 111-150, to permit the use of previously appropriated funds to extend the Small Business Loan Guarantee Program, authorized the SBA to use $40 million in previously appropriated funds for fee subsidies and the 7(a) loan modification. For further information concerning the SBA's appropriation see CRS Report R41340, *Financial Services and General Government (FSGG): FY2011 Appropriations*, coordinated by Garrett Hatch.

[42] The FY2011 appropriation eliminated $59.0 million for special projects and $1.0 million for the surety bond revolving loan fund. The SBA reported that there are sufficient funds in reserve to cover the cost of surety bond claim defaults. Funding for the SBA's disaster loan programs was reduced from $78.3 million in FY2010 to $45.4 million in FY2011.