

# Congress of the United States

Washington, DC 20515

June 6, 2005

The Honorable Jerry Lewis, Chairman  
Committee on Appropriations  
Room H-218, The Capitol  
Washington, DC 20515

The Honorable David Obey, Ranking Member  
Committee on Appropriations  
1016 Longworth House Office Building  
Washington, DC 20515

Dear Chairman Lewis and Ranking Member Obey:

We are writing to urge you to include \$79,132,000 in the Science, State, Justice, and Commerce, and Related Agencies appropriations bill for the Small Business Administration's (SBA) 7(a) loan guarantee program in FY 2006. Our nation's small businesses are best served by a 7(a) loan program that operates as public-private partnership, and providing this funding will enable our communities to reap the benefits.

Small firms with fewer assets to pledge as collateral and uncertain earnings have had a more difficult time than larger businesses when it comes to securing necessary capital. Research has indicated that small businesses often fail because they lack sufficient access to capital at start-up or during key growth phases. To fill this void in the capital markets, Congress created the 7(a) program as the federal government's primary business loan guarantee program.

The 7(a) program has achieved widespread success and now provides 30 percent of all long-term, small business financing. It is also the SBA's largest and most important program in terms of number of loans and program level supported. Through this vital program, small businesses are able to create the economic growth and new jobs that our country so desperately needs.

Unfortunately, for FY 2005, the appropriation for this program was eliminated and the complete cost of the program was shifted to small businesses and their community lenders. As a result, small businesses are being forced to pay substantial upfront fees to use the program. For smaller loans less than \$150,000, fees are doubled from 1 percent to 2 percent, which translates into nearly \$1,500 more in upfront closing costs for entrepreneurs. For a loan of \$700,000, this would raise the fees by approximately \$3,000. As a result of these fee increases, many small businesses are unable to access the capital they need to hire new employees or expand their operations.

These actions – most notably the recently imposed higher fees on business owners – have reduced small businesses’ demand for the 7(a) program. For the last quarter of FY 2004, the program provided \$3.94 billion in 7(a) loans. Since the fees were raised on small businesses – loan volume has decreased to only \$3.42 billion for the most recent quarter, a decline of more than half of a billion dollars. Unfortunately, further fee increases are proposed for FY 2006, which will increase the cost of 7(a) loans, forcing many entrepreneurs to be locked out of the capital markets.

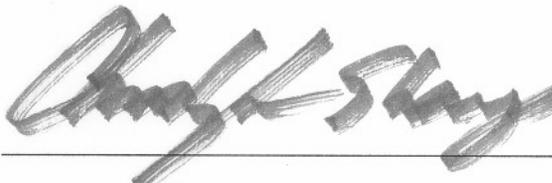
By restoring funding for the 7(a) loan program for FY 2006 at the FY 2004 level, Congress can ensure that small firms maintain unimpeded access to affordable business financing. We recognize your commitment to our nation’s small businesses and truly appreciate your efforts in supporting the SBA’s 7(a) loan program. We look forward to continuing our work with you on this issue and thank you for your continued support.

Sincerely,

  
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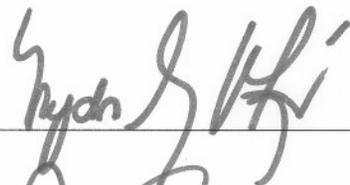
  
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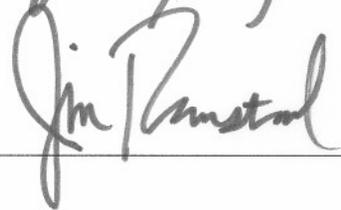
  
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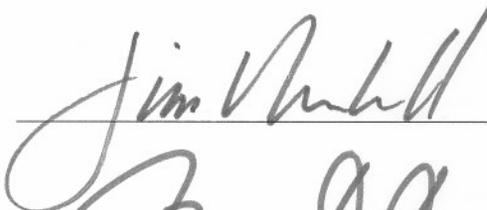
  
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