Congress of the United States

Washington, DC 20515

October 28, 2005

Honorable Frank Wolf, Chairman
Appropriations Subcommittee on Science, State, Justice and Commerce
Room H-309, The Capitol
Washington, DC 20515

Honorable Alan Mollohan, Ranking Member
Appropriations Subcommittee on Science, State, Justice and Commerce
1016 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Shelby, Chairman
Appropriations Subcommittee on Commerce, Justice, and Science
Room S-146A, The Capitol
Washington, DC 20515

The Honorable Barbara Mikulski, Ranking Member
Appropriations Subcommittee on Commerce, Justice, and Science
144 Dirksen Senate Office Building
Washington, DC 20515

Dear Chairmen Wolf and Shelby and Ranking Members Mollohan and Mikulski:

We are writing to urge you to include $79,132,000 in the SSJC-CJS Conference Report for the Small Business Administration's (SBA) 7(a) loan guarantee program in FY 2006. The House voted in May to include this level of funding in the SSJC appropriations bill. We believe that our nation's small businesses our best served by a 7(a) loan program that operates as a public-private partnership, and providing this funding will enable our communities to reap the benefits.

Many small businesses are unable to access affordable capital, often turning to high-cost forms of financing, such as credit cards. As a result, entrepreneurs are less able to invest in their business, hire new employees, or develop new products. Filling the void for affordable financing is the 7(a) program, which 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 program, small businesses are able to create the economic growth and new jobs that our local communities need.

Unfortunately, for FY 2005, 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 have doubled, which translates into nearly $1,500 more in upfront closing costs for entrepreneurs. For a loan of $700,000, this raised the fees by approximately $3,000.

Exacerbating these rising program costs has been the recent string of interest rates increases. Because interest rates for commercial loans are variable, rather than fixed, these higher interest rates are being passed onto business owners. As a result of these fee increases and the rising interest rate environment, many small businesses are unable to access the capital they need to hire new employees or expand their operations.

By shifting the program's full cost to businesses and their lenders, the SBA has scaled back the reach of the 7(a) program. One such initiative that was discontinued on October 1, 2005 was the LowDoc program, which enabled smaller banks to make loans in rural communities. In addition, the SBA is scaling back the Community Express program, a key means in providing financing opportunities to minority communities. Without adequate funding for the 7(a) program, the LowDoc and Community Express initiatives are unable to operate. Their elimination hurts not only the small businesses they serve, but also the rural and minority communities that these small businesses are located in.

Concerns have also been raised about the affect that the Gulf Coast hurricanes will have on the 7(a) portfolio and ultimately the cost of the program. The SBA's 7(a) loan portfolio contains more than $1.5 billion in 7(a) loans that were made to businesses in hurricane-affected. Due to the economic challenges created by the recent Hurricanes, as well as new challenges created by Hurricane Wilma, it is likely that a considerable amount of these loans will default. Such a high level of unforeseen defaults will cause the 7(a) program's overall cost to rise significantly. Without a sufficient appropriation, it is probable that the program's fees will be further increased, that a cap will be imposed on loan size, or, in the worst case, that the program will be shutdown all together.

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,

George Miller

[illegible]

Mike Doyle

[illegible]

Anna G. Eshoo

Ron Paul

Tim Ryan

Jim Langevin

Rick Larsen

[illegible]

[illegible]

David Scott

Mike Ross

Adam Smith

John Barrow

Debbie Wasserman Schultz

Ed Case

Carolyn McCarthy

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