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Small Business Administration: A Primer on Programs

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Small Business Administration: A Primer on Programs

Summary

The Small Business Administration (SBA) was created to aid small businesses because they are viewed as important sources of job creation and economic growth, but are typically disadvantaged in competing against large firms. Many minority-owned small businesses are even more disadvantaged, and they can apply to join programs that provide limited competition contracts and technical assistance to help them to grow and gain experience to compete successfully against larger businesses.

The SBA has many programs that affect every state and congressional district. The disaster loan programs are the subject of frequent congressional and media attention because of complaints about slow processing of loan applications. The SBA does not view these programs as immediate assistance, but the public frequently is looking for a rapid response.

Most Members of Congress receive many constituent inquiries about SBA loans, the loan guarantee programs, and special contracting programs. Except for disaster loans, the SBA does not directly make loans to businesses. Instead it provides guarantees for private business loans that lenders would not otherwise be willing to make under desirable terms such as maturity and interest rate. The SBA also provides funding to selected financial intermediaries that invest in and otherwise support small businesses.

The SBA reviews loan and guarantee applications to assure that there is a reasonable probability that a loan will be repaid. In the event of default on a loan, the SBA uses all available avenues to obtain repayment, including seizing income tax refunds.

This report summarizes the major SBA programs. It will be updated if new programs are added or existing programs phased out.

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Small Business Administration: A Primer on Programs

Introduction

The Small Business Administration (SBA) not only represents the interests of small businesses, but it also provides disaster recovery loans for hurricanes, floods, and even terrorist attacks to individuals and businesses. After Hurricanes Katrina and Rita in 2005, many criticized the SBA's disaster loan program for not processing loan applications rapidly¹ and for allowing large businesses to win government contracts meant for small businesses.² This report provides an overview of the SBA's programs. 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 website³ and in Title 13 of the Code of Federal Regulations.⁴

The Small Business Act states that continued free competition is “the essence of the American economic system.”⁵ It declares that it is the policy of Congress to insure 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 with other government agencies.

The SBA also has programs for disadvantaged groups to overcome disadvantages that members of racial and ethnic minorities face in business. These programs give participants training and reduced competition for government contracts. After graduating from the programs, the SBA expects that the firms should be able to compete more successfully for government and private sector work.

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. The RFC shrank during the early 1950s after the end of World War II and was disbanded amidst charges of

¹ “Slow Business Administration,” *The Washington Post*, Dec. 9, 2005, p. A-30.

² Griff Witte and Renae Merle, “Defining Small,” *The Washington Post*, Oct. 20, 2005, p. D-1.

³ See [<http://www.sba.gov>].

⁴ See [<http://www.access.gpo.gov/cgi-bin/cfrassemble.cgi?title=200513>].

⁵ P.L. 85-536, as amended.

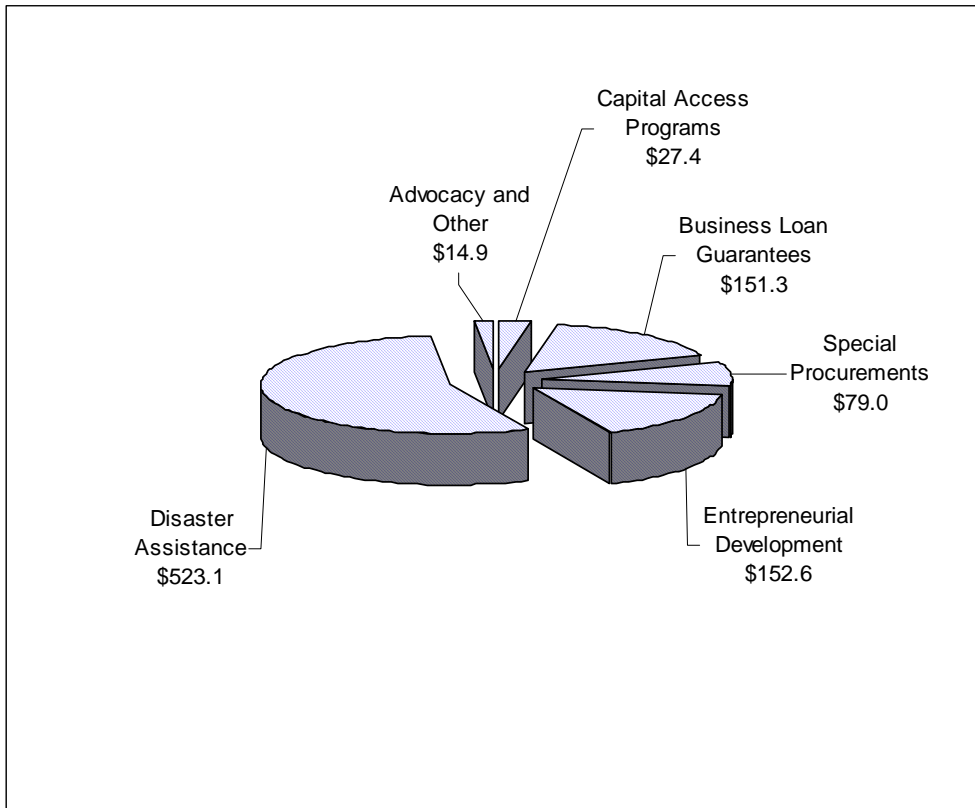
political favoritism in granting loans. In 1953 Congress passed the Small Business Act (P.L. 83-163) that created the SBA. The SBA has undergone many changes since 1953. One key change is that it no longer makes direct loans to businesses or individuals except for disaster loans.

As a general principle and following its statutory mandate, the SBA is willing to take more risks than other lenders will, but there is a limit to the amount of risk it is willing to accept. To reduce 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. For some loans and loan guarantees, 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.

Appropriations cover salaries, expenses, and losses (after debt recovery) in the SBA's lending and guarantee programs. One trend during the administration of President George W. Bush has been increasing the fees for loan guarantees to reduce the amount appropriated. This reduces the cost of the program to the federal government by shifting costs to program participants. In FY2005, the SBA budget was \$948.4 million.

The SBA has six types of programs: disaster loans, business loan guarantees, special federal government procurements limited to businesses owned by socially and economically disadvantaged groups, capital access programs, entrepreneurial development, and a residual category including research and advocacy. **Figure 1** shows SBA's FY2005 budget of \$948.4 million broken down into these areas.

Figure 1. Major SBA Program Areas, FY2005
(\$ Millions)



Source: Small Business Administration, *Congressional Submission Fiscal Year 2006*.

SBA Disaster Loans

Overview

SBA disaster loans are some of the agency's best-known programs and the only ones that are not limited to small businesses. The disaster loan programs are the subject of frequent congressional and media attention because of complaints about slow processing of loan applications. The SBA does not view these programs as immediate assistance, but the public frequently is looking for a rapid response.

Disaster loans are available to both individuals and small businesses in declared disaster areas. These 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. There are no prepayment penalties on any disaster loans.⁶

⁶ 13 C.F.R. 123.105 and 123.203.

Types of Disaster Loans

Disaster Loans to Individuals. Individuals can obtain loans for both personal property such as cars and furniture, and to repair homes destroyed. Loans are limited to uninsured losses.

Personal Property Disaster Loans. Personal property loans are limited to \$40,000 and must be used to repair or replace damaged items. The loan can cover possessions such as cars, clothes, and furniture. Both homeowners and renters may apply. Unusually high-value possessions such as furs, boats, airplanes, antiques, and recreational vehicles are not covered.

Applicants who can obtain credit elsewhere are charged a rate based on the cost of money to the U.S. government, but not more than 8% annually. Those who cannot obtain credit elsewhere are charged half that rate, but not more than 4% annually. The maximum maturity for these loans is 30 years, but the SBA determines repayment terms on a case-by-case basis according to the person's ability to repay.

Real Property Disaster Loans. Real property disaster loans are not available to renters, have a limit of \$200,000, and must be used to repair or restore primary homes. The loan cannot be used to improve the home beyond its original condition unless local building codes require structural changes.⁷

Disaster Loans to Businesses and Nonprofits. There are four types of loans available to businesses 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 \$1.5 million for repairs and replacements to real property, machinery, equipment, fixtures, inventory, and leasehold improvements that are not covered by insurance. The SBA may waive the \$1.5 million ceiling if a business is a "major source of employment."⁸ Loans are for up to 30 years, and the interest rates are determined under the same rules as for personal property disaster loans.

Nonprofits that are rejected or approved for less than the requested amount by the SBA for a physical disaster loan are in some circumstances eligible for grants from the Federal Emergency Management Agency (FEMA). One reason that a nonprofit might be approved for less than the full amount by the SBA is a request for more than \$1.5 million. The SBA could approve the \$1.5 million and reject the excess. The borrower could then approach FEMA for the amount denied.

⁷ 13 U.S.C. 123. See [http://www.sba.gov/disaster_recov/loaninfo/property.html].

⁸ 13 C.F.R. 123.202.

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 \$1.5 million and the terms are the same as personal and physical disaster business loans.

Military Reservist Economic Injury Disaster Loans. This program makes loans to small businesses to cover ordinary and necessary operating expenses that could not be met because an essential employee who is in the military reserves was called up to active duty in a period of military conflict resulting from a declaration by the President, Congress, or the Secretary of Defense.

These loans are at a subsidized rate and are not available if the business has resources to cover these expenses. The statutory limit is \$1.5 million, but the SBA will not approve more than the actual, covered operating expenses. The SBA will consider waiving the \$1.5 million limit for small businesses that are “a major source of employment.” The maximum interest rate is 4%.

GO Loans. In response to Hurricanes Katrina and Rita, the SBA created the Gulf Opportunity Pilot Loan Program (GO Loans) for small business in or relocating to the counties and parishes declared major disaster areas. The maximum loan of \$150,000 is backed by an 85% SBA guarantee. The goal is to process the loan application in one day. The maximum interest rate on loans of \$50,000 or less is prime plus 6.5%. On larger loans the maximum interest rate is prime plus 4.5%. Only SBA Express lenders (described below) can make these loans.

SBA Small Business Financial Programs

Overview

The SBA has four types of programs to directly support small businesses that are not affected by disasters. The first are loan guarantees in which the SBA guarantees loans to small businesses that the private sector would otherwise be unwilling to make because of the risk.

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 full and open competition 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.

To qualify for any of the SBA programs, an organization must be both a business and small.

What Is a Business? To participate in either type of program, 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,
- makes a contribution to the U.S. economy by paying taxes or using American labor, products, and materials, and
- does not exceed the size standard for its industry.⁹

What is Small? The definition of "small" — called the size standard — depends on what a business produces. Also depending on what is produced, the SBA determines the size standard either in terms of dollars of revenue or number of employees (but not both).¹⁰ For example, most manufacturers must have no more than 500 employees to meet the size standard. Most general and heavy construction firms (except dredging) must have an average annual revenue of \$28.5 million or less (\$31 million on and after January 4, 2006). The formal determination involves selecting the North American industrial classification system (NAICS) codes that represent the business.¹¹ Many NAICS codes are very similar, and there is as much art as objectivity in selecting which codes to use in the SBA programs. Some programs use a single size standard, such as 500 employees, regardless of industry.

When bidding on contracts that are limited to small businesses or that give preferences to them, businesses must certify that they meet the size standard when they submit their proposals. Depending on the type of contract, they may be required to certify their size at other times. A large company can purchase a small business that has won a small-business-set-aside contract and continue to perform work under the contract. Depending on the contract vehicle, a small business subsidiary could win new small business work for the large parent.

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 making the guarantee less than 100%. 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

⁹ See [<http://www.sba.gov/size/summary-what-is.html>].

¹⁰ 13 C.F.R. 121 establishes how the size standards are developed.

¹¹ In 1997 NAICS replaced the Standard Industrial Classification (SIC) codes. Some documents still refer to "SIC" instead of "NAICS."

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. Nonprofit and charitable organizations are also ineligible.

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.¹²

Fees. To offset the cost of these programs to the taxpayer, the SBA charges fees based on the size of the loan. There is a one time guarantee fee that currently ranges from 2% to 3.625%. The lender is charged an annual service fee of 0.5%.

Maturity. SBA guaranteed loans generally have longer terms to maturity than other business loans. The maximum loan 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 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 make loans to farms, but it recommends contacting the Farm Service Agency first.

Other Sources. The SBA does not guarantee loans to businesses that can obtain loans without it. If the entire amount is not available without an SBA guarantee, the SBA will guarantee the difference.

Programs. The SBA has many loan guarantee programs.

7(a). 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.

The maximum amount of a loan depends on the SBA’s guarantee. The SBA is limited to guaranteeing \$1.5 million, but no more than 85% on loans up to \$150,000

¹² 13 C.F.R. 120.223.

and 75% on loans more than \$150,000. This makes the maximum loan amount \$2 million.

Interest rates on 7(a) loans are negotiated between the borrower and the lender, but are subject to SBA maximums. **Table 1** summarizes these caps.

Table 1. Maximum Interest Rates on SBA 7(a) Guaranteed Fixed-Rate Loans

Amount	Maturity	Maximum Interest Rate
\$50,000 or more	Less Than 7 Years	Prime + 2.25%
\$50,000 or more	7 Years or More	Prime + 2.75%
\$25,000 to \$50,000	Less Than 7 Years	Prime + 3.25%
\$25,000 to \$50,000	7 Years or More	Prime + 3.75%
\$25,000 or less	Less Than 7 Years	Prime + 4.25%
\$25,000 or less	7 Years or More	Prime + 4.75%

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 SBA optional peg rate is calculated and published quarterly in *The Federal Register*. For October to December 2005 the peg rate was 4.5%.¹³ The spread over the prime rate or SBA optional peg rate is negotiable between the borrower and the lender. The adjustment period can be no more than monthly and cannot change over the life of the loan.

In recent years the Administration has proposed making the 7(a) program self-funding by raising the fees charged users for the SBA's loan guarantees. In FY2005, the program became entirely funded by user fees, although the conference committee report agreed to revisit the decision in the event of an economic downturn.¹⁴

Variations on the 7(a) Program. There are two variations on the 7(a) program: prequalification and Certified Development Company (CDC)/504 loans. The *prequalification* program targets low-income borrowers, disabled business owners, new and emerging businesses, veterans, exporters, and rural and specialized industries. The maximum loan amount is \$250,000. Other terms follow standard 7(a) parameters. SBA encourages applicants to use intermediaries to prepare a viable loan application package. The intermediaries insure that the business plan and

¹³ U.S. Small Business Administration, "Interest Rates; Quarterly Determinations," 70 *Federal Register* 58249, Oct. 5, 2005.

¹⁴ U.S. Congress, House of Representatives, *Making Appropriations for Foreign Operations, Export Financing, and Related Programs for The Fiscal Year Ending September 30, 2004, and for Other Purposes*, conference report to accompany H.R. 4818, 108th Cong., 2nd sess., Report 108-792, p. 843.

supporting documents are complete; they also make sure that the applicant has credit merit. Once the application is completed, the intermediary sends it to the SBA for expedited processing. If the SBA approves the application, the intermediary will help the business to find a lender offering the most competitive rates.

Small Business Development Centers (SBDCs) do not charge for this service, but for-profit intermediaries do.

The *504 loan program* uses CDCs, which are nonprofit organizations that support local economic development. 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.¹⁵ The small business must contribute at least 10% as equity.

The maximum amount of the SBA's debenture depends on its purpose. This is summarized in **Table 2** below.

¹⁵ A debenture is a bond that is not secured by a lien on specific collateral.

Table 2. 504 Loan Maximum Debenture and Loan Amounts

Goal	Maximum Debenture	Maximum Loan Amount
<p>Job Creation or Community Development A business must create or retain one job for each \$50,000 of the debenture except for small manufacturers.</p>	\$1.5 million	\$3.38 million
<p>Small Manufacturers Job Creation The primary output of the company must be in NAICS codes 31, 32, or 33. All production facilities must be in the United States. In addition, the loan must result in the creation or retention of at least one job per \$100,000 guaranteed or improve the local economy or meet one of the public policy goals below.</p>	\$4 million	\$9 million
<p>Public Policy Goal Supported by Loan</p> <ul style="list-style-type: none"> • Business district revitalization • Expansion of exports • Expansion of minority business development • Rural development • Increasing productivity and competitiveness • Restructuring because of federally mandated standards or policies • Changes necessitated by federal budget cutbacks • Expansion of small business concerns owned and controlled by veterans, especially service-disabled veterans • Expansion of small business concerns owned and controlled by women 	\$2 million	\$4.5 million

Note: 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 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.

Export Working Capital Loans. Export Working Capital Loans are a joint program between the SBA and the Export-Import Bank. The SBA will guarantee up to the lesser of \$1.5 million or 90% of the loan.

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. The SBA will guarantee 85% of loans up to \$150,000 and 75% of loans from \$150,000 to \$250,000 (the maximum loan amount under the program). This program is scheduled to end in 2006.

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 the regular 7(a) loan guarantee program, but the maximum guaranteed amount can be increased to \$1.75 million instead of the normal \$1.5 million under special circumstances.

Community Adjustment and Investment Program (CAIP). 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 the North American Free Trade Agreement (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.

Table 3. SBA Loan Guarantee Summary

Program	Purpose	Maximum Loan	Maximum SBA Guarantee
7(a)	This is the SBA's primary business loan program. Small businesses apply for an SBA loan guarantee after being denied a loan by a commercial lender that will then make the loan. Can be for up to 10 years for working capital and 25 years for real assets.	\$2.0 million	85% of loans of \$150,000 or less, 75% of loans more than \$150,000
GO Loans	SBA-guaranteed loans to businesses in counties and parishes covered by Hurricanes Katrina and Rita disaster declarations. These loans are made only by SBA Express lenders (see page 14).	\$150,000	85%
Prequalification	Prequalification intermediaries help small businesses assemble 7(a) loan guarantee requests.	\$250,000	Same as 7(a) program
Certified Development Company (CDC)/504 Loan Program	Loans are for real estate, machinery, or equipment. The usual loan package includes a loan from a private lender for up to 50% of the project cost secured by a senior lien, a loan for up to 40% of the project cost secured with a junior lien from the CDC (backed by a 100% SBA-guaranteed debenture) and at least 10% equity from the small business.	\$1.5 million debenture, depending on job creation criteria or community economic development. Up to \$4.0 million if it meets other criteria.	The debenture, which can be up to 40% of the loan package, is 100% guaranteed.

SBA Lender Programs

The SBA has programs for experienced 7(a) lenders that provide faster processing to borrowers. This speed is achieved because the SBA lets the lender do more of the work with less SBA review. They 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 to achieve this faster turnaround.

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.

SBA Express. The SBA Express program offers borrowers an answer within 36 hours. Lenders are authorized by the SBA to make eligibility decisions. The maximum loan amount is \$350,000, but the SBA will guarantee only 50% compared to 85% on loans of less than \$150,000, or 75% on larger loans in other 7(a) programs. The maximum interest rate that a lender can charge is 6.5% over the prime rate for loans of \$50,000 or less and 4.5% over prime for other loans. Only SBA Express lenders can make GO Loans, which were discussed previously.

SBA lenders wishing to join the SBA Express program must meet portfolio performance requirements and be preferred lenders. Other lenders in certain areas desiring to join the program must originate a reasonable number of commercial loans of \$50,000 or less.

SBA Special Contracting Programs

There are three major SBA special contracting programs that allow small businesses owned by disadvantaged individuals or located in impoverished areas to compete for government contracts only with similar firms. This gives these disadvantaged businesses a chance to win government contracts without having to compete against larger and more experienced companies.

8(a). The 8(a) program (named for the section of the Small Business Act from which it derives its authority) is for businesses owned by citizens who are socially and economically disadvantaged.¹⁶ A firm that is certified as an 8(a) is eligible for sole source and limited competition government contracts. They also can be given a 10% cost advantage in some procurements. The SBA provides technical assistance and training to 8(a) firms. Firms graduate from the program after nine years.¹⁷ As of November 15, 2005, there were 9,609 firms in the 8(a) program.¹⁸

Small Disadvantaged Businesses (SDBs). SDBs are similar to 8(a) firms, but the benefits are limited to federal procurements. Firms can be in this program for three years. Firms that are certified as 8(a) are SDBs for the duration of

¹⁶ 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.

¹⁷ See [<http://www.sba.gov/8abd/indexfaqs.html>].

¹⁸ Small Business Administration, special tabulation.

their 8(a) status. The program offers price evaluation adjustments and can be a factor in contract evaluations.¹⁹ As of November 15, 2005, there were 13,021 SDBs.²⁰

Historically Underutilized Business Zones (HUBZones). This program provides assistance to small businesses located in Historically Underutilized Business Zones (HUBZones) through limited competition contract competitions, sole source awards, or price evaluation preferences in full and open competitions.²¹ 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 reside in the HUBZone.

Service-Disabled Veterans. Contracting officers of government agencies are authorized to limit procurement competitions or sole source contracts to small businesses owned by service-disabled veterans.²²

Office of Small and Disadvantaged Business Utilization (OSDBU). Every government agency with procurement authority has an Office of Small and Disadvantaged Business Utilization (OSDBU) to advocate within the agency for firms that are small, SDB, 8(a), woman-owned, HUBZone, or service-disabled veteran owned. Agencies set goals for contracting with these firms as prime and subcontractors, and the OSDBUs participate in the process. In addition, the OSDBUs help their agencies reach these goals. This is done with contracts that either limit competition to these groups, give a cost advantage to these groups, or set a subcontracting goal for these groups.

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 four types of surety bonds. 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

¹⁹ See [<http://www.sba.gov/sdb/indexaboutsdb.html>].

²⁰ Small Business Administration, special tabulation.

²¹ See [<https://eweb1.sba.gov/hubzone/internet/>].

²² P.L. 108-183.

contracted. Fourth, it guarantees ancillary bonds that are required to guarantee the performance of the contract.

Small Business Innovation Research Awards (SBIR). 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. For more details on SBIR awards, see CRS Report 96-402, *Small Business Innovation Research Program*, by Wendy H. Schacht.

Small Business Technology Transfer (STTR) Awards. The 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 Companies (SBICs). Small Business Investment Companies (SBICs) are privately owned companies that are licensed by the SBA to provide debt and equity capital to small businesses. They can obtain loans from the SBA to supplement their own capital. For the SBIC program, a small business is a business with net worth of \$18 million or less and an average after-tax income for the two preceding years of \$6 million or less. There are alternative size standards in some industries. The SBIC sells a debenture to the SBA, which guarantees repayment and creates a pool of these debentures for resale on the secondary market. SBICs can borrow three times their private capital to a maximum of \$113 million.

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.

Small Business Development Centers (SBDC). Small Business Development Centers (SBDCs) provide management assistance to small businesses. The SBA provides up to 50% of an SBDC's funding with other sponsors providing the balance.

Entrepreneurial Development

Entrepreneurial development provides technical and managerial training to small businesses. Some of this is free and other training is at low cost.

Service Corps of Retired Executives (SCORE). The Service Corps of Retired Executives (SCORE) uses over 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). 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 with at least one in every state and territory.

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

Native American Outreach. 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

Advocacy. The Office of Advocacy represents small businesses, small organizations, and small governments within the federal government. 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.

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

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

Recent Changes

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. 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 SBAExpress does not.

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

Extended Programs

Community Express and Export Express. These programs were to expire on November 30, 2005, but the SBA extended them until May 31, 2006. Community Express is modeled on the SBA Express program, but targeted at underserved areas and offering 75%-85% guarantees compared to SBA Express's 50%. Export Express is also modeled on SBA Express and offers higher guarantee percentages.

Revisions

Size Standards. The SBA increased the size standard defining "small" business when measured by monetary standards such as revenue, income, and assets by 8.7% effective January 4, 2006. This is the first increase in the standard since February 2002.²³ The SBIC size standard is set by law and is not changed.

²³ U.S. Small Business Administration, "Small Business Size Standards Inflation Adjustment to Size Standards; Business Loan Program; Disaster Assistance Loan Program," 70 *Federal Register* 72577, Dec. 5, 2005.