



Small Business Administration: A Primer on Programs

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Summary

The Small Business Administration (SBA) administers several types of 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 disaster loans, the loan guarantee programs, and contracting programs.

This report provides an overview of these programs, including changes made by P.L. 111-5, the American Recovery and Reinvestment Act of 2009, P.L. 111-240, the Small Business Jobs Act of 2010, and P.L. 112-239, the National Defense Authorization Act for Fiscal Year 2013. It also provides an overview of the SBA's budget. This report references other CRS reports that examine the SBA's programs in greater detail.

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Introduction

The Small Business Administration's (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 assumed some of the functions of the Reconstruction Finance Corporation (RFC), which had been 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 following charges of political favoritism in the granting of loans and contracts.¹

In 1953, Congress passed the Small Business Act (P.L. 83-163), which authorized the SBA. The act specifies that the SBA's mission is to promote the interests of small businesses to enhance competition in the private marketplace:

It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government (including but not limited to contracts or subcontracts for maintenance, repair, and construction) be placed with small-business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation.²

The SBA currently administers several types of 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 these 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 disaster loans, the loan guarantee programs, and contracting programs.

This report provides an overview of the SBA's programs, including changes made by P.L. 111-5, the American Recovery and Reinvestment Act of 2009, P.L. 111-240, the Small Business Jobs Act of 2010, and P.L. 112-239, the National Defense Authorization Act for Fiscal Year 2013. It also provides an overview of the SBA's budget and references other CRS reports that examine the SBA's programs in greater detail.³

¹ U.S. Congress, Senate Committee on Expenditures, Subcommittee on Investigations, *Influence in Government Procurement*, 82nd Cong., 1st sess., September 13-15, 17, 19-21, 24-28, October 3-5, 1951 (Washington: GPO, 1951); and U.S. Congress, Senate Banking and Currency, *RFC Act Amendments of 1951*, hearing on bills to amend the Reconstruction Finance Corporation Act, 82nd Cong., 1st sess., April 27, 30, May 1, 2, 22, 23, 1951 (Washington: GPO, 1951).

² P.L. 83-163, the Small Business Act of 1953 (as amended), see <http://legcoun.house.gov/members/Comps/SBA.pdf>.

³ The SBA's programs have detailed rules on program requirements and administration that are not covered in this report. More detailed information concerning the SBA's programs is available in the CRS reports referenced later in this report, on the SBA's website at <http://www.sba.gov>, in 15 U.S.C. §631 et seq., and in Title 13 of the Code of Federal Regulations.

The SBA’s FY2013 congressional budget justification document includes funding and program costs for the following programs and offices:

1. disaster assistance;
2. business loan guarantee programs (including the 7(a) program, the 504/Certified Development Company program, the Microloan program, and the Small Business Investment Company program);
3. entrepreneurial development programs (including Small Business Development Centers, Women’s Business Centers, and SCORE, among others);
4. government contracting and business development programs (including the 8(a) Minority Small Business and Capital Ownership Development Program, the Historically Underutilized Business Zones (HUBZones) program, the Service-Disabled Veteran-Owned Small Business Program, and the Women-Owned Small Business (WOSB) Federal Contract program);
5. capital access programs (including international trade programs, the new market venture capital program, and the surety bond guarantee program);
6. the SBA Office of Inspector General (OIG);
7. the SBA Office of Advocacy;
8. executive direction programs (National Women’s Business Council, Ombudsman, and Veteran’s Business Development); and
9. other programs, including regional and district office programs.

Table 1 shows the SBA’s estimated costs in FY2012 for these program areas.

Table I. Major SBA Program Areas, Estimated Program Costs, FY2012

Program Category	Estimated Costs
Disaster loan program	\$249,129,000
Business loan guarantee programs	\$194,018,000
Entrepreneurial development programs	\$163,258,000
Government contracting and business development programs	\$109,992,000
Capital access programs	\$13,085,000
SBA Office of Inspector General	\$24,765,000
SBA Office of Advocacy	\$12,810,000
Executive direction programs	\$12,560,000
Other programs, including regional and district office programs	\$27,337,000
Total	\$806,954,000

Source: U.S. Small Business Administration, *FY2013 Congressional Budget Justification and FY2011 Annual Performance Report*, 2011, pp. 21-22.

Notes: Program costs often differ from program appropriations as appropriations may be carried over from previous fiscal years. The SBA also has limited, specified authority to shift appropriations among various programs.

SBA Disaster Loans

Overview⁴

SBA disaster assistance is provided in the form of loans, not grants, and therefore must be repaid to the federal government. The SBA's disaster loans are unique in two respects: (1) they are the only loans made by the SBA that go directly to the ultimate borrower and (2) they are the only loans made by the SBA that are not limited to small businesses.⁵

SBA disaster loans are available to individuals, businesses, and nonprofit organizations in declared disaster areas.⁶ About 80% of the SBA's direct disaster loans are issued to individuals and households (renters and property owners) to repair and replace homes and personal property. In recent years, the SBA disaster loan programs have been the subject of regular congressional and media attention because of concerns expressed about the time it takes the SBA to process disaster loan applications.

Types of Disaster Loans

The SBA Disaster Loan Program includes the following categories of loans for disaster-related losses: home disaster loans, business physical disaster loans, economic injury disaster loans, and pre-disaster mitigation loans.⁷

Disaster Loans to Homeowners, Renters, and Personal Property Owners

Homeowners, renters, and personal property owners located in a declared disaster area (and in contiguous counties) may apply to the SBA for loans to help recover losses from a declared 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."⁸ 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),⁹ and three types of SBA declarations.¹⁰

⁴ For additional information and analysis, see CRS Report R41309, *The SBA Disaster Loan Program: Overview and Possible Issues for Congress*, by Bruce R. Lindsay.

⁵ 13 C.F.R. §123.

⁶ 13 C.F.R. §123.105 and 13 §123.203.

⁷ The SBA also offers military reservist economic injury disaster loans. These loans are available when economic injury is incurred as a direct result of a business owner or an essential employee being called to active duty. Generally, these loans are not associated with disasters. See CRS Report R42695, *SBA Veterans Assistance Programs: An Analysis of Contemporary Issues*, by Robert Jay Dilger and Sean Lowry.

⁸ 13 C.F.R. §123.2.

⁹ P.L. 93-288, Disaster Relief Act Amendments; and 42 U.S.C. §5721 et seq.

¹⁰ Disaster declarations are published in the *Federal Register* and can also be found on the SBA website at <http://www.sba.gov/content/current-disaster-declarations>.

The SBA's Home Disaster Loan Program falls into two categories: personal property loans and real property loans. These 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 seven-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, the interest rate may not exceed 8% per year. For applicants who cannot obtain credit without SBA assistance, the interest rate may not exceed 4% per year.¹¹

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.¹² The loans may not be used to upgrade homes or build additions, unless upgrades or changes are required by city or county building codes. 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 Nonprofit Organizations

Several types of loans, discussed below, are available to businesses and nonprofit organizations 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 organization or business. The other business disaster loans are limited to small businesses.

Physical Disaster Loan

Any business or nonprofit organization, 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. Physical disaster loans for businesses may use up to 20% of the verified loss amount for mitigation measures in an effort to prevent loss from a similar disaster in the future. Nonprofit organizations that are rejected or are approved by the SBA for less than the requested amount for

¹¹ 13 C.F.R. §123.105(a)(1).

¹² 13 C.F.R. §123.105(a)(2). For mitigation measures implemented after a disaster has occurred to protect the damaged property from a similar disaster in the future, a homeowner can request that the approved loan amount be increased by the lesser of the cost of the mitigation measure, or up to 20% of the verified loss (before deducting compensation from other sources), to a maximum of \$200,000. 13 C.F.R. §127.

a physical disaster loan are in some circumstances eligible for grants from the Federal Emergency Management Agency (FEMA). For applicants who can obtain credit without SBA assistance, the interest rate may not exceed 8% per year. For applicants who cannot obtain credit without SBA assistance, the interest rate may not exceed 4% per year.¹³

Economic Injury Disaster Loans

Economic injury disaster loans (EIDLs) are limited to small businesses as defined by the SBA's size regulations, which vary from industry to industry.¹⁴ 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.¹⁵

Pre-Disaster Mitigation Loan Program

To support FEMA's Pre-Disaster Mitigation Program, SBA may make low-interest, fixed-rate loans to small businesses to finance measures to protect commercial property, leasehold improvements, or contents from disaster-related damages that may occur in the future.¹⁶ A business that participates in the program may borrow up to \$50,000 each fiscal year. The business applying for the loan must be located in a Special Flood Hazard Area (SFHA).¹⁷ The interest rate for a pre-disaster mitigation loan is fixed at 4% per annum or less.¹⁸

SBA Financial Programs

Overview

The SBA has the authority to make direct loans to small businesses, but, with the exception of disaster loans, has not exercised that authority since 1994. The SBA indicated that it stopped issuing direct business loans primarily because the subsidy rate was "10 to 15 times higher" than the subsidy rate for its loan guaranty programs.¹⁹ Instead of making direct loans, it guarantees

¹³ 13 C.F.R. §123.203.

¹⁴ See 13 C.F.R. §123.300 for eligibility requirements. Size standards vary according to a variety of factors, including industry type, average firm size, and start-up costs and entry barriers. Size standards can be located in 13 C.F.R. 121. For further information and analysis, see CRS Report R40860, *Small Business Size Standards: A Historical Analysis of Contemporary Issues*, by Robert Jay Dilger.

¹⁵ 13 C.F.R. §123.302.

¹⁶ For further information and analysis concerning FEMA's Pre-Disaster Mitigation Program see CRS Report RL34537, *FEMA's Pre-Disaster Mitigation Program: Overview and Issues*, by Francis X. McCarthy and Natalie Keegan.

¹⁷ 13 C.F.R. §123.403(a).

¹⁸ 13 C.F.R. §123.406.

¹⁹ U.S. Congress, Senate Committee on Small Business, *Hearing on the Proposed Fiscal Year 1995 Budget for the Small Business Administration*, 103rd Cong., 2nd sess., February 22, 1994, S. Hrg. 103-583 (Washington: GPO, 1994), p. (continued...)

loans issued by approved lenders to encourage those lenders to provide loans to small businesses “that might not otherwise obtain financing on reasonable terms and conditions.”²⁰ With few exceptions, to qualify for SBA assistance, an organization must be both a business and small.²¹

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.²²

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

What Is Small?²³

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 1,047 industrial classifications in 18 sub-industry activities 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.²⁴

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 five measures: the firm’s (1) average annual receipts in the previous three years, (2) number of employees, (3) asset size, (4) for electrical power industries, the extent of its power generation, or (5) for refineries, a combination of

(...continued)

20.

²⁰ U.S. Small Business Administration, *Fiscal Year 2010 Congressional Budget Justification*, p. 30.

²¹ The SBA provides financial assistance to nonprofit organizations to provide training to small business owners, and to provide loans to small businesses through the SBA Microloan program. Also, nonprofit childcare centers are eligible to participate in SBA’s Microloan program.

²² 13 C.F.R. §121.105.

²³ For additional information and analysis, see CRS Report R40860, *Small Business Size Standards: A Historical Analysis of Contemporary Issues*, by Robert Jay Dilger.

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

number of employees and barrel per day refining capacity. Historically, the SBA has used the number of employees to determine if manufacturing and mining companies are small and average annual receipts for most other industries.

As a starting point, the SBA presumes \$7.0 million in average annual receipts in the previous three years 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.²⁵

Overall, more than 97% of all businesses are considered small by the SBA.²⁶ These firms represent about 30% of industry receipts.

Loan Guarantee Programs

Overview

The SBA provides loan guarantees for small businesses that cannot obtain credit elsewhere. Its four largest loan guarantee programs are the 7(a) loan guaranty program, the 504/Certified Development Company loan guaranty program, the Microloan program, and the Small Business Investment Company program.

The SBA requires personal guarantees from borrowers and shares the risk of default with the lender by making the guarantee less than 100%. In the event of a default, the borrower 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. A list of ineligible businesses (such as insurance companies, real estate investment firms, firms involved in financial speculation or pyramid sales, businesses involved in illegal activities, and businesses deriving more than one-third of gross annual revenue from legal gambling activities) is contained in 13 C.F.R. Section 120.110.²⁷ With one exception, nonprofit and charitable organizations are also ineligible.²⁸

²⁵ U.S. Small Business Administration, Office of Government Contracting and Business Development, “SBA Size Standards Methodology,” April 2009, pp. 1-8, at http://www.sba.gov/sites/default/files/size_standards_methodology.pdf.

²⁶ U.S. Small Business Administration, “Table of Small Business Size Standards Matched to North American Industry Classification System Codes,” at <http://www.sba.gov/content/small-business-size-standards>; and U.S. Small Business Administration, “SBA’s Size Standards Analysis: An Overview on Methodology and Comprehensive Size Standards Review,” power point presentation, Khem R. Sharma, SBA Office of Size Standards, July 13, 2011, p. 4, at http://www.actgov.org/sigcom/SIGs/SIGs/SBSIG/Documents/2011%20-%20Documents%20and%20Presentations/Size%20Stds%20Presentation_SIG%20Meeting.pdf.

²⁷ Title 13 of the Code of Federal Regulations can be viewed at <http://www.gpo.gov/fdsys/pkg/CFR-2012-title13-vol1/pdf/CFR-2012-title13-vol1-chap1.pdf>.

²⁸ 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.

Also, as shown in the following tables, most of these programs charge fees to help offset program costs, including costs related to loan defaults. In most instances, the SBA's fees are set in statute. For example, for 7(a) loans with a maturity exceeding 12 months the SBA is authorized to charge lenders a guarantee fee of up to 2% for the SBA guaranteed portion of loans of \$150,000 or less, up to 3% for the SBA guaranteed portion of loans exceeding \$150,000 but not more than \$700,000, and up to 3.5% for the SBA guaranteed portion of loans exceeding \$700,000. Also, lenders with a 7(a) loan which has a SBA guaranteed portion in excess of \$1 million can be charged an additional fee not to exceed 0.25% of the guaranteed amount in excess of \$1 million. These loans are also subject to an ongoing servicing fee not to exceed 0.55% of the outstanding balance of the guaranteed portion of the loan.²⁹ Lenders are also authorized to collect fees from borrowers to offset their administrative expenses.

The SBA's goal is to achieve a zero subsidy rate, meaning that the loan guarantee programs do not require annual appropriations of budget authority for new loan guaranties. However, in recent years, the fees have not generated enough revenue to cover loan losses, resulting in the need for additional appropriations to account for the shortfall. In FY2010, and again in FY2011, the SBA was provided an additional \$80 million for the cost of guaranteed loans. The SBA was provided \$207.1 million for this purpose in FY2012, and \$333.6 million for FY2013 (\$316.9 million after sequestration).³⁰

7(a) Loan Guaranty Program³¹

The 7(a) loan guaranty program 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. The 7(a) program's current guaranty rate is 85% for loans of \$150,000 or less and 75% for loans greater than \$150,000 (up to a maximum guaranty of \$3.75 million—75% of \$5 million). Although the SBA's offer to guarantee a loan provides an incentive for lenders to make the loan, lenders are not required to do so.

Table 2 provides information on the 7(a) program's key features, including its eligible uses, maximum loan amount, loan maturity, interest rates, and guarantee fees.

²⁹ 15 U.S.C. §636(a)(23)(a).

³⁰ H.Rept. 112-136, Financial Services and General Government Appropriations Bill, 2012; S.Rept. 112-79, Financial Services and General Government Appropriations Bill, 2012; U.S. Office of Management and Budget, *The Appendix, Budget of the United States Government, Fiscal Year 2013*, p. 1267, at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/sba.pdf>; P.L. 112-175, the Continuing Appropriations Resolution, 2013; and U.S. Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*, March 1, 2013, p. 59, at http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjsequestrationreport.pdf.

³¹ For further information and analysis, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger.

Table 2. Summary of the 7(a) Loan Guaranty Program's Key Features

Key Feature	Program Summary
Use of Proceeds	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 have a maximum term of 10 years.
Maximum Interest Rates	Base rate plus 2.25% for maturities fewer than 7 years. Base rate plus 2.75% 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%. There is a prepayment penalty for loans with maturities of 15 years or more if prepaid during the first 3 years.
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 3.75% for the guaranty portion over \$1 million. There is an on-going servicing 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 \$962.5 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 \$350,000.³² 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.

³² P.L. 111-240, the Small Business Jobs Act of 2010, temporarily increased the SBAExpress program's loan limit to \$1 million for one year following enactment (through September 26, 2011).

Special Purpose Loan Guarantees

In addition to the 7(a) loan guaranty program, the SBA has special purpose loan guaranty programs for small businesses adjusting to the North American Free Trade Agreement (NAFTA), to support Employee Stock Ownership Program trusts, pollution control facilities, and working capital.

Community Adjustment and Investment Program. The Community Adjustment and Investment Program (CAIP) uses federal funds to pay the fees on 7(a) and 504/CDC 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. In 1976, the SBA was provided authorization to guarantee the payment of rentals or other amounts due under qualified contracts for pollution control facilities. P.L. 100-590, the Small Business Reauthorization and Amendment Act of 1988, eliminated the revolving fund for pollution control guaranteed loans and transferred its remaining funds to the SBA's business loan and investment revolving fund. Since 1989, loans for pollution control have been guaranteed under the 7(a) loan guaranty program.

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

The 504/CDC Loan Guaranty Program³³

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, or repaying debt. 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.³⁴ The small business must contribute at least 10% as equity. To participate in the program, small businesses cannot exceed \$15 million in tangible net worth and cannot have average net income over \$5 million for two full fiscal years before the date of application. **Table 3** summarizes the 504/CDC loan guarantee program's key features.

³³ For further information and analysis, see CRS Report R41184, *Small Business Administration 504/CDC Loan Guaranty Program*, by Robert Jay Dilger.

³⁴ A debenture is a bond that is not secured by a lien on specific collateral.

Table 3. Summary of the 504/Certified Development Company Loan Guaranty Program’s Key Features

Key Feature	Program Summary
Use of Proceeds	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 up 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 15 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.

The Microloan Program³⁵

The Microloan program provides direct loans to qualified non-profit intermediary Microloan lenders who, in turn, provide “microloans” of up to \$50,000 to small businesses and non-profit child care centers. It also provides marketing, management, and technical assistance to Microloan borrowers and potential borrowers. The program was authorized in 1991 as a five-year demonstration project and became operational in 1992. It was made permanent, subject to reauthorization, by P.L. 105-135, the Small Business Reauthorization Act of 1997. Although the program is open to all small businesses, it targets new and early-stage businesses in underserved markets, including borrowers with little to no credit history, low-income borrowers, and women and minority entrepreneurs in both rural and urban areas who generally do not qualify for conventional loans, or other, larger SBA guaranteed loans. **Table 4** summarizes the Microloan program’s key features.

³⁵ For further information and analysis, see CRS Report R41057, *Small Business Administration Microloan Program*, by Robert Jay Dilger.

Table 4. Summary of the Microloan Program’s Key Features

Key Feature	Program Summary
Use of proceeds	Working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. Loans cannot be made to acquire land or property.
Maximum Loan Amount	\$50,000.
Maturity	Up to six years.
Maximum Interest Rates	<p>The interest rate charged to the intermediary is based on the five-year Treasury rate, adjusted to the nearest one-eighth percent, less 1.25%. The SBA’s interest rate is updated on a monthly basis. In addition, intermediaries that maintain an average loan size of \$10,000 or less are charged an interest rate based on the five-year Treasury rate, adjusted to the nearest one-eighth percent, less 2.0%. Portfolios are evaluated annually to determine the applicable rate.</p> <p>On loans of more than \$7,500, the maximum interest rate that can be charged to the borrower is the interest rate charged by the SBA on the loan to the intermediary, plus 7.75%. On loans of \$7,500 or less, the maximum interest rate that can be charged to the borrower is the interest charged by the SBA on the loan to the intermediary, plus 8.5%. Rates are negotiated between the borrower and the intermediary, and typically range from 8% to 10%.</p>
Guarantee Fees	The SBA does not charge intermediaries upfront or on-going service fees under the Microloan program.
Job Creation Requirements	No job creation requirements.

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

The Small Business Investment Company Program³⁶

The Small Business Investment Company (SBIC) program enhances small business access to venture capital by stimulating and supplementing “the flow of private equity capital and long term loan funds which small business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply.”³⁷ The SBA works with nearly 300 privately owned and managed 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). SBICs provide equity capital to small businesses in various ways, including by

- purchasing small business equity securities (e.g., stock, stock options, warrants, limited partnership interests, membership interests in a limited liability company, or joint venture interests);³⁸
- making loans to small businesses, either independently or in cooperation with other private or public lenders, that have a maturity of no more than 20 years;³⁹

³⁶ For further information and analysis, see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger.

³⁷ 15 U.S.C. §661.

³⁸ 13 CFR §107.800. The SBIC is not allowed to become a general partner in any unincorporated business or become jointly or severally liable for any obligations of an unincorporated business.

- purchasing debt securities from small businesses, which may be convertible into, or have rights to purchase, equity in the small business,⁴⁰ and
- subject to limitations, providing small businesses a guarantee of their monetary obligations to creditors not associated with the SBIC.⁴¹

Table 5. Summary of Small Business Investment Company Program’s Key Features

Key Feature	Program Summary
Use of Proceeds	To purchase small business equity securities, make loans to small businesses, purchase debt securities from small businesses, and provide, subject to limitations, small businesses a guarantee of their monetary obligations to creditors not associated with the SBIC.
Maximum Leverage Amount	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 licensed on or after October 1, 2009, may elect to have a maximum leverage amount of \$175 million per SBIC and \$250 million for two or more licenses under common control if it has invested at least 50% of its financings in low-income geographic areas and certifies that at least 50% of its future investments will be in low-income geographic areas.
Maturity	SBA-guaranteed debenture participation certificates can have a term of up to 15 years, although currently only one outstanding SBA-guaranteed debenture participation certificate has a term exceeding 10 years and all recent public offerings have specified a term of 10 years. SBA-guaranteed debentures provide for semi-annual interest payments and a lump sum principal payment to investors at maturity. SBICs are allowed to prepay SBA-guaranteed debentures without penalty. However, a SBA-guaranteed debenture must be prepaid in whole and not in part, and can only be prepaid on a semi-annual payment date. Also, low-to-moderate income area (LMI) debentures are available in two maturities, for 5 years and 10 years (plus the stub period).
Maximum Interest Rates	The debenture’s coupon (interest) rate is determined by market conditions and the interest rate of 10-year treasury securities at the time of the sale.
Guarantee Fees	The SBA requires the SBIC to pay a 3% origination fee for each debenture issued (1% at commitment and 2% at draw), an annual fee on the leverage drawn which is fixed at the time of the leverage commitment, and other administrative and underwriting fees which are adjusted annually.
Job Creation Requirements	No job creation requirements.

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

(...continued)

³⁹ 13 CFR §107.810; and 13 CFR §107.840

⁴⁰ 13 CFR §107.815. Debt securities are instruments evidencing a loan with an option or any other right to acquire equity securities in a small business or its affiliates, or a loan which by its terms is convertible into an equity position, or a loan with a right to receive royalties that are excluded from the cost of money.

⁴¹ 13 CFR §107.820.

Entrepreneurial Development Programs⁴²

The SBA's entrepreneurial development programs provide technical and managerial training to small businesses. Some of this training is free and other training is at low cost and includes services provided by the Service Corps of Retired Executives (SCORE), Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), Veteran Business Outreach Centers, and Native American Outreach programs, among others.

SCORE was established on October 5, 1964, by then-SBA Administrator Eugene P. Foley, as a national, volunteer organization, uniting more than 50 independent nonprofit organizations into a single, national nonprofit organization. SCORE's 364 chapters and more than 800 branch offices are located throughout the United States and partner with nearly 13,000 volunteer counselors, who are working or retired business owners, executives, and corporate leaders, to provide management and training assistance to small businesses.

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 900 SBDCs and at least one in every state and territory.

WBCs are similar to SBDCs, except they concentrate on assisting women entrepreneurs. There are currently 108 WBCs, with at least one WBC in most states and territories.

The SBA's Veterans Business Outreach Centers Program provides "outreach, assessment, long term counseling, training, coordinated service delivery referrals, mentoring and network building, procurement assistance and E-based assistance to benefit Small Business concerns and potential concerns owned and controlled by Veterans, Service Disabled Veterans and Members of Reserve Components of the U.S. Military."⁴³ There are currently 15 Veterans Business Outreach Centers.⁴⁴

The SBA's Office of Native American Affairs provides management and technical educational assistance to Native Americans (American Indians, Alaska Natives, Native Hawaiians and the indigenous people of Guam and American Samoa) to start and expand small businesses.

Small Business Contracting Programs⁴⁵

A number of programs assist small businesses in obtaining and performing federal contracts and subcontracts. These include various prime contracting programs; subcontracting programs; and

⁴² For further information and analysis, see CRS Report R41352, *Small Business Management and Technical Assistance Training Programs*, by Robert Jay Dilger.

⁴³ U.S. Small Business Administration, Office of Veterans Business Development, "Special Program Announcement: Veterans Business Outreach Center Program," April 2010, p. 1, at http://archive.sba.gov/idc/groups/public/documents/sba_program_office/ovbd_vboc_prgm_announce2010.pdf.

⁴⁴ U.S. Small Business Administration, "Veterans Business Outreach Centers," at <http://www.sba.gov/content/veterans-business-outreach-centers>. There were eight veterans business outreach centers in FY2009.

⁴⁵ 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.

other assistance (e.g., the federal goaling program and federal Offices of Small and Disadvantaged Business Utilization).

Prime Contracting Programs

Several contracting programs 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:**⁴⁶ The 8(a) Minority Small Business and Capital Ownership Development 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.⁴⁷ 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. As of March 7, 2013, there were 8,162 firms with active certifications in the 8(a) program.⁴⁸
- **Historically Underutilized Business Zone Program:**⁴⁹ 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.⁵⁰ The determination of whether or not an area is a HUBZone is based on criteria specified in 13 C.F.R. Section 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 March 7, 2013, there were 5,665 firms with active HUBZone certifications.⁵¹
- **Service-Disabled Veteran-Owned Small Business Program:** This program assists service-disabled veteran-owned small businesses through set-asides and

⁴⁶ For further information and analysis, see CRS Report R40744, *The "8(a) Program" for Small Businesses Owned and Controlled by the Socially and Economically Disadvantaged: Legal Requirements and Issues*, by Kate M. Manuel and John R. Luckey.

⁴⁷ 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.

⁴⁸ U.S. Small Business Administration, "Dynamic Small Business Search," at http://dsbs.sba.gov/dsbs/search/dsp_dsbs.cfm.

⁴⁹ For additional information and analysis, see CRS Report R41268, *Small Business Administration HUBZone Program*, by Robert Jay Dilger.

⁵⁰ 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.

⁵¹ U.S. Small Business Administration, "Dynamic Small Business Search," at 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.⁵²
- **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 underrepresented.
 - **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 March 7, 2013, there were 8,196 certified SDBs.⁵³

Goaling Program

Since 1978, federal agency heads have been required to establish federal procurement contracting goals, in consultation with the SBA, “that realistically reflect the potential of small business concerns” to participate in federal procurement. Each agency is required, at the conclusion of each fiscal year, to report its progress in meeting the goals to the SBA.⁵⁴

In 1988, Congress authorized the President to annually establish government-wide minimum participation goals for procurement contracts awarded to small businesses and small businesses owned and controlled by socially and economically disadvantaged individuals. Congress required the government-wide minimum participation goal for small businesses to be “not less than 20% of the total value of all prime contract awards for each fiscal year” and “not less than 5% of the total value of all prime contract and subcontract awards for each fiscal year” for small businesses owned and controlled by socially and economically disadvantaged individuals.⁵⁵

Each federal agency was also directed to “have an annual goal that presents, for that agency, the maximum practicable opportunity for small business concerns and small business concerns

⁵² 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.

⁵³ U.S. Small Business Administration, “Dynamic Small Business Search,” at http://dsbs.sba.gov/dsbs/search/dsp_dsbs.cfm.

⁵⁴ P.L. 95-507, a bill to amend the Small Business Act and the Small Business Investment Act of 1958.

⁵⁵ P.L. 100-656, the Business Opportunity Development Reform Act of 1988.

owned and controlled by socially and economically disadvantaged individuals to participate in the performance of contracts let by such agency.”⁵⁶ The SBA was also required to report to the President annually on the attainment of the goals and to include the information in an annual report to the Congress.⁵⁷ The SBA negotiates the goals with each federal agency and establishes a “small business eligible” baseline for evaluating the agency’s performance.

The small business eligible baseline excludes certain contracts that the SBA has determined do not realistically reflect the potential for small business participation in federal procurement (such as contracts awarded to mandatory and directed sources), contracts awarded and performed overseas, contracts funded predominately from agency-generated sources, contracts not covered by Federal Acquisition Regulations, and contracts not reported in the Federal Procurement Data System (such as contracts or government procurement card purchases valued less than \$3,000).⁵⁸ These exclusions typically account for 18% to 20% of all federal prime contracts each year.

The SBA then evaluates the agencies’ performance against their negotiated goals annually, using data from the Federal Procurement Data System—Next Generation, managed by the U.S. General Services Administration, to generate the small business eligible baseline. This information is compiled into the official Small Business Goaling Report, which the SBA releases annually.

Over the years, federal government-wide procurement contracting goals have been established for small businesses generally (P.L. 100-656, the Business Opportunity Development Reform Act of 1988, and P.L. 105-135, the HUBZone Act of 1997 — Title VI of the Small Business Reauthorization Act of 1997), small businesses owned and controlled by socially and economically disadvantaged individuals (P.L. 100-656, the Business Opportunity Development Reform Act of 1988), women (P.L. 103-355, the Federal Acquisition Streamlining Act of 1994), small businesses located within a HUBZone (P.L. 105-135, the HUBZone Act of 1997 — Title VI of the Small Business Reauthorization Act of 1997), and small businesses owned and controlled by a service disabled veteran (P.L. 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999).

The current federal small business contracting goals are

- at least 23% of the total value of all small business eligible prime contract awards to small businesses for each fiscal year,
- 5% of the total value of all small business eligible prime contract awards and subcontract awards to small disadvantaged businesses for each fiscal year,
- 5% of the total value of all small business eligible prime contract awards and subcontract awards to women-owned small businesses,
- 3% of the total value of all small business eligible prime contract awards and subcontract awards to HUBZone small businesses, and

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ See U.S. General Services Administration, Federal Procurement Data System—Next Generation, “Small Business Goaling Report: Fiscal Year 2011,” at https://www.fpds.gov/downloads/top_requests/FPDSNG_SB_Goaling_FY_2011.pdf.

- 3% of the total value of all small business eligible prime contract awards and subcontract awards to service-disabled veteran-owned small businesses.⁵⁹

There are no punitive consequences for not meeting the small business procurement goals. However, the SBA’s Small Business Goaling Report is distributed widely, receives media attention, and serves to heighten public awareness of the issue of small business contracting. For example, agency performance as reported in the SBA’s Small Business Goaling Report is often cited by Members during their questioning of federal agency witnesses during congressional hearings.

As shown in **Table 6**, in FY2011, federal agencies met the federal contracting goal for small disadvantaged businesses, but not the other goals. Federal agencies awarded 21.65% of the value of their small business eligible contracts to small businesses, 7.67% to small disadvantaged businesses, 3.98% to women-owned small businesses, 2.35% to HUBZone small businesses, and 2.65% to service-disabled veteran-owned small businesses.⁶⁰ The percentage of total reported federal contracts (without exclusions) awarded to small businesses, small disadvantaged businesses, women-owned small businesses, HUBZone small businesses, and service-disabled veteran-owned small businesses in FY2011 is also provided in the table for comparative purposes.

Table 6. Federal Contracting Goals and Percentage of FY2011 Federal Contract Dollars Awarded to Small Businesses, by Type

Business Type	Federal Goal	Percentage of FY2011 Federal Contracts (small business eligible)	Percentage of FY2011 Federal Contracts (all reported contracts)
Small Businesses	23.0%	21.65%	17.0%
Small Disadvantaged Businesses	5.0%	7.67%	6.0%
Women-Owned Small Businesses	5.0%	3.98%	3.1%
HUBZone Small Businesses	3.0%	2.35%	1.8%
Service-Disabled Veteran-Owned Small Businesses	3.0%	2.65%	2.1%

Source: U.S. Small Business Administration, “Statutory Guidelines,” at <http://www.sba.gov/content/goaling-guidelines-0> (federal goals); U.S. General Services Administration, Federal Procurement Data System—Next Generation, “Small Business Goaling Report: Fiscal Year 2011,” at https://www.fpds.gov/downloads/top_requests/FPDSNG_SB_Goaling_FY_2011.pdf; and U.S. General Services Administration, Federal Procurement Data System—Next Generation, at <https://www.fpds.gov/fpdsng/> (contract dollars).

Notes: The total amount of federal contracts awarded in FY2011, as reported in the FPDS, was \$536.8 billion; \$422.5 billion of this amount was deemed by the SBA to be small business eligible. Of the total amount reported, \$91.5 billion was awarded to small businesses, \$32.4 billion to small disadvantaged businesses, \$16.8 billion to women owned small businesses, \$9.9 billion to SBA-certified HUBZone small businesses, and \$11.2 billion to service-disabled veteran-owned small businesses.

⁵⁹ 15 U.S.C. §644(g)(1)-(2).

⁶⁰ U.S. General Services Administration, Federal Procurement Data System—Next Generation, “Small Business Goaling Report: Fiscal Year 2011,” at https://www.fpds.gov/downloads/top_requests/FPDSNG_SB_Goaling_FY_2011.pdf.

Office of Small and Disadvantaged Business Utilization

Government agencies with procurement authority have 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).

Capital Access Programs

The SBA has several programs to improve small businesses access to capital markets, including the Surety Bond Guarantee Program, two special high technology contracting programs (the Small Business Innovative Research and Small Business Technology Transfer programs), and the New Market Venture Capital program. In addition, the previously discussed Small Business Investment Company program is also designed to improve access to capital markets.

Surety Bond Guarantee Program⁶¹

The SBA's Surety Bond Guarantee Program is designed to increase small businesses' access to federal, state, and local government contracting, as well as private-sector contracts, by guaranteeing bid, performance, and payment bonds for small businesses that cannot obtain surety bonds through regular commercial channels.⁶² The program guarantees individual contracts of up to \$6.5 million, and up to \$10 million if a federal contracting officer certifies that such a guarantee is necessary. The SBA's guarantee ranges from 70% to 90% of the surety's loss if a default occurs.

A surety bond is a three-party instrument between a surety (someone who agrees to be responsible for the debt or obligation of another), a contractor, and a project owner. The agreement binds the contractor to comply with the terms and conditions of a contract. If the contractor is unable to successfully perform the contract, the surety assumes the contractor's responsibilities and ensures that the project is completed. The surety bond reduces the risk of contracting.⁶³

Surety bonds are viewed as a means to encourage project owners to contract with small businesses that may not have the credit history or prior experience of larger businesses and are considered to be at greater risk of failing to comply with the contract's terms and conditions.⁶⁴

⁶¹ For additional information and analysis, see CRS Report R42037, *SBA Surety Bond Guarantee Program*, by Robert Jay Dilger.

⁶² Ancillary bonds are also eligible if they are incidental and essential to a contract for which SBA has guaranteed a final bond. A reclamation bond is eligible if it is issued to reclaim an abandoned mine site, and for a project undertaken for a specific period of time.

⁶³ U.S. Small Business Administration, "Surety Bonds," at <http://www.sba.gov/category/navigation-structure/loans-grants/bonds/surety-bonds>.

⁶⁴ *Ibid.*

Small Business Innovation Research Program⁶⁵

The Small Business Innovation Research (SBIR) program is designed to increase the participation of small, high technology firms in federal research and development (R&D) endeavors, provide additional opportunities for the involvement of minority and disadvantaged individuals in the R&D process, and result in the expanded commercialization of the results of federally funded R&D.⁶⁶ Current law requires that every federal department with an R&D budget of \$100 million or more establish and operate an SBIR program. A set percentage of that agency's applicable extramural research and development budget—originally set at not less than 0.2% in FY1983, and currently not less than 2.7 in FY2013—is to be used to support mission-related work in small businesses.⁶⁷

Agency SBIR efforts involve a three-phase process. First, phase I awards of up to \$150,000 for six months are made to evaluate a concept's scientific or technical merit and feasibility. The project must be of interest to and coincide with the mission of the supporting organization. Projects that demonstrate potential after the initial endeavor may compete for Phase II awards of up to \$1 million, lasting one to two years. Phase II awards are for the performance of the principal R&D by the small business. Phase III funding, directed at the commercialization of the product or process, is expected to be generated in the private sector. Federal dollars may be used if the government perceives that the final technology or technique will meet public needs.

Eleven departments currently have SBIR programs, including the Departments of Agriculture, Commerce, Defense (DOD), Education, Energy, Health and Human Services, Homeland Security, and Transportation; the Environmental Protection Agency; the National Aeronautics and Space Administration (NASA); and the National Science Foundation (NSF). Each agency's SBIR activity reflects that organization's management style. Individual departments select R&D interests, administer program operations, and control financial support. Funding can be disbursed in the form of contracts, grants, or cooperative agreements. Separate agency solicitations are issued at established times.

The SBA is responsible for establishing the broad policy and guidelines under which individual departments operate their SBIR programs. The SBA monitors and reports to Congress on the conduct of the separate departmental activities.

Small Business Technology Transfer Program

The Small Business Technology Transfer program (STTR) provides funding for research proposals that are developed and executed cooperatively between a small firm and a scientist in a nonprofit research organization and fall under the mission requirements of the federal funding

⁶⁵ For further information and analysis of the SBIR program, see CRS Report 96-402, *Small Business Innovation Research (SBIR) Program*, by Wendy H. Schacht.

⁶⁶ See P.L. 97-219, the Small Business Innovation Development Act of 1982; and 15 U.S.C. §638.

⁶⁷ The percentage of each designated agency's applicable extramural research and development budget to be used to support mission-related work in small businesses is scheduled to increase to: not less than 2.7% in FY2013, not less than 2.8% in FY2014, not less than 2.9% in FY2015, not less than 3.0% in FY2016, and not less than 3.2% in FY2017 and each fiscal year thereafter. See P.L. 112-81, the National Defense Authorization Act for Fiscal Year 2012; and U.S. Small Business Administration, "Small Business Innovation Research Program Policy Directive," 77 *Federal Register* 46806-46855.

agency.⁶⁸ Up to \$150,000 in Phase I financing is available for approximately one year to fund the exploration of the scientific, technical, and commercial feasibility of an idea or technology. Phase II awards of up to \$1 million may be made for two years. During this period, the R&D work is performed and the developer begins to consider commercial potential. Only Phase I award winners are considered for Phase II. Phase III funding, directed at the commercialization of the product or process, is expected to be generated in the private sector. The small business must find funding in the private sector or other non-STTR federal agency.

The STTR program is funded by a set-aside, initially set at not less than 0.05% in FY1994 and now at not less than 0.35%, of the extramural R&D budget of departments that spend over \$1 billion per year on this effort.⁶⁹ The Departments of Energy, Defense, and Health and Human Services, NASA, and NSF participate in the STTR program.

The SBA is responsible for establishing the broad policy and guidelines under which individual departments operate their STTR programs. The SBA monitors and reports to Congress on the conduct of the separate departmental activities.

New Market Venture Capital Program⁷⁰

The New Market Venture Capital (NMVC) program encourages equity investments in small businesses in low-income areas that meet specific statistical criteria established by regulation. The program operates through public-private partnerships between the SBA and newly formed NMVC investment companies and existing Specialized Small Business Investment Companies (SSBICs) that operate under the Small Business Investment Company program.

The NMVC program's objective is to serve the unmet equity needs of local entrepreneurs in low-income areas by providing them developmental venture capital investments and technical assistance, create quality employment opportunities for low-income area residents, and build wealth within those areas.

The SBA's role is essentially the same as with the SBIC program. The SBA selects participants for the NMVC program, provides funding for their investments and operational assistance activities, and regulates their operations to ensure that public policy objectives are being met. The SBA requires the companies to provide regular performance reports and have annual financial examinations by the SBA.

Office of Inspector General

The Office of Inspector General's (OIG's) mission is "to improve SBA management and effectiveness, and to detect and deter fraud in the Agency's programs."⁷¹ It serves as "an

⁶⁸ See P.L. 102-564, the Small Business Research and Development Enhancement Act of 1992; and 15 U.S.C. §638.

⁶⁹ The STTR program's set-aside is scheduled to increase to: 0.4% in FY2014 and 0.45% in FY2016 and each fiscal year thereafter. See P.L. 112-81, the National Defense Authorization Act for Fiscal Year 2012; and U.S. Small Business Administration, "Small Business Technology Transfer Program Policy Directive," 77 *Federal Register* 46855 – 46908.

⁷⁰ For further information and analysis of the New Markets Venture Capital program, see CRS Report R42565, *SBA New Markets Venture Capital Program*, by Robert Jay Dilger.

⁷¹ U.S. Small Business Administration, "Office of Inspector General," at <http://www.sba.gov/office-of-inspector-> (continued...)

independent and objective oversight office created within the SBA by the Inspector General Act of 1978 (P.L. 95-452 as amended).⁷² The Inspector General, who is nominated by the President and confirmed by the Senate, directs the office. The Inspector General Act provides the OIG with the following responsibilities:

- promote economy, efficiency, and effectiveness in the management of SBA programs and supporting operations;
- conduct and supervise audits, investigations, and reviews relating to the SBA's programs and support operations;
- detect and prevent fraud and abuse;
- review existing and proposed legislation and regulations and make appropriate recommendations;
- maintain effective working relationships with other governmental agencies, and non-governmental entities, regarding the Inspector General's mandated duties;
- keep the SBA Administrator and Congress informed of serious problems and recommend corrective actions and implementation measures;
- comply with the Comptroller General's audit standards;
- avoid duplication of Government Accountability Office (GAO) activities; and
- report violations of law to the U.S. Attorney General.⁷³

Office of Advocacy

The SBA's Office of Advocacy is "an independent voice for small business within the federal government."⁷⁴ The Chief Counsel for Advocacy, who is nominated by the President and confirmed by the Senate, directs the office. The Office of Advocacy's mission is to "encourage policies that support the development and growth of American small businesses" by

- intervening early in federal agencies' regulatory development process on proposals that affect small businesses and providing Regulatory Flexibility Act compliance training to federal agency policymakers and regulatory development officials;
- producing research to inform policymakers and other stakeholders on the impact of federal regulatory burdens on small businesses, to document the vital role of small businesses in the economy, and to explore and explain the wide variety of issues of concern to the small business community; and

(...continued)

general.

⁷² U.S. Small Business Administration, "Office of the Inspector General Strategic Plan for FY 2006 – 2011," at <http://www.sba.gov/office-of-inspector-general/860/4753#Mission>.

⁷³ Ibid.

⁷⁴ U.S. Small Business Administration, "Office of Advocacy: About Us," at <http://www.sba.gov/category/advocacy-navigation-structure/about-us>.

- fostering a two-way communication between federal agencies and the small business community.⁷⁵

Executive Direction Programs

The SBA's executive direction programs consist of the National Women's Business Council, the Office of Ombudsman, and the Office of Veteran's Business Development.

The National Women's Business Council

The National Women's Business Council is a bi-partisan federal advisory council created to serve as an independent source of advice and counsel to the President, Congress, and the SBA on economic issues of importance to women business owners. The council's mission "is to promote bold initiatives, policies, and programs designed to support women's business enterprises at all stages of development in the public and private sector marketplaces—from start-up to success to significance."⁷⁶

Office of Ombudsman

The National Ombudsman's mission "is to assist small businesses when they experience excessive or unfair federal regulatory enforcement actions, such as repetitive audits or investigations, excessive fines, penalties, threats, retaliation or other unfair enforcement action by a federal agency."⁷⁷ It works with federal agencies that have regulatory authority over small businesses to provide a means for entrepreneurs to comment about enforcement activities and encourage agencies to address those concerns promptly. It also receives comments from small businesses about unfair federal compliance or enforcement activities and refers those comments to the Inspector General of the affected agency in appropriate circumstances. It also files an annual report with Congress and affected federal agencies that rates federal agencies based on substantiated comments received from small business owners. Affected agencies are provided an opportunity to comment on the draft version of the annual report to Congress before it is submitted.⁷⁸

Office of Veterans Business Development⁷⁹

In recent years, the SBA has provided management and technical assistance training services to more than 100,000 veterans annually through its various management and technical assistance training partners (e.g., Small Business Development Centers, Women Business Centers, Service

⁷⁵ U.S. Small Business Administration, Office of Advocacy, "FY 2013 Congressional Budget Justification," p. 2, at <http://www.sba.gov/about-sba-info/46741>.

⁷⁶ The National Women's Business Council, "About the Council," Washington, DC, at http://www.nwbc.gov/aboutus/ABOUT_THE_COUNCIL.html.

⁷⁷ U.S. Small Business Administration, "Office of the National Ombudsman and Assistant Administrator for Regulatory Enforcement Fairness," at <http://www.sba.gov/ombudsman>.

⁷⁸ U.S. Small Business Administration, "2010 Fiscal Year National Ombudsman Annual Report to Congress," at <http://www.sba.gov/ombudsman/886/13145>.

⁷⁹ For further information and analysis see CRS Report R42695, *SBA Veterans Assistance Programs: An Analysis of Contemporary Issues*, by Robert Jay Dilger and Sean Lowry.

Corps of Retired Executives [SCORE], and Veteran Business Outreach Centers) and has responded to more than 85,000 veteran inquiries annually through its SBA district offices.⁸⁰ In addition, the Office of Veterans Business Development (OVBD) administers several programs to assist veteran-owned businesses, including the Veterans Business Outreach Center program, which provides veterans and their spouses management and technical assistance training at 15 locations. The training includes assistance with the development and maintenance of a five-year business plan and referrals to other SBA resource partners when appropriate for additional training or mentoring services.⁸¹

OVBD also sponsors (1) the Entrepreneurial Boot Camp for Veterans with Disabilities Consortium of Universities, which provides, at eight universities, management and experiential training in entrepreneurship to post-9/11 veterans with disabilities;⁸² (2) the Veteran Women Igniting the Spirit of Entrepreneurship (V-WISE) program at Syracuse University, which offers women veterans a 15-day, online course focused “on the basic skills of entrepreneurship and the ‘language of business,’” followed by a three-day conference featuring “accomplished entrepreneurs and entrepreneurship educators from across the United States” and “courses on business planning, marketing, accounting/finance, operations/production, human resources and work life balance”;⁸³ and (3) the Operation Endure and Grow Program, also at Syracuse University, which is an eight-week online training program focused on how to start and expand a small business and is available to National Guard and Reservists and their family members.⁸⁴

Legislative Activity

During the 111th Congress, several laws were enacted which included provisions designed to increase small business access to capital. For example, P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA) provided the SBA an additional \$730 million in temporary funding, including \$375 million to subsidize fees for the SBA’s 7(a) and 504/CDC loan guaranty programs and to increase the 7(a) program’s maximum loan guaranty percentage to 90% for all

⁸⁰ Interagency Task Force on Veterans Small Business Development, “Report to the President: Empowering Veterans Through Entrepreneurship,” November 1, 2011, p. 15, at <http://www.sba.gov/sites/default/files/FY2012-Final%20Veterans%20TF%20Report%20to%20President.pdf>.

⁸¹ U.S. Small Business Administration, “Veterans Business Outreach Centers,” at <http://www.sba.gov/content/veterans-business-outreach-centers/>. Each Veterans Business Outreach Center is funded on an annual basis, with funding not to exceed \$150,000 each year. Awards “may vary, depending upon location, staff size, project objectives, performance and agency priorities, and additional special initiatives initiated by the Office of Veterans Business Development.” See U.S. Small Business Administration, Office of Veterans Business Development, “Special Program Announcement: Veterans Business Outreach Center Program,” April 2010, p. 2, at http://archive.sba.gov/idc/groups/public/documents/sba_program_office/ovbd_vboc_prgm_announce2010.pdf. Also, existing centers may receive additional funding for special outreach or other initiatives. The initial grant award is for 12 months, with the possibility of four additional (option) years. In FY2011, the Veterans Business Outreach Centers Program conducted its seventh annual “Customer Satisfaction Survey.” The FY2011 survey found that 91% of the clients using the centers were satisfied or highly satisfied with the quality, relevance, and timeliness of the assistance provided. See U.S. Small Business Administration, “FY2013 Congressional Budget Justification and FY2011 Annual Performance Report,” 2012, p. 62, at <http://www.sba.gov/sites/default/files/files/FY%202013%20CBJ%20FY%202011%20APR.pdf>.

⁸² Syracuse University, “About the EBV,” Syracuse, NY, at <http://whitman.syr.edu/ebv/>.

⁸³ Syracuse University, “Women Veterans Igniting the Spirit of Entrepreneurship (V-WISE),” Syracuse, NY, at <http://www.whitman.syr.edu/vwise/index.asp>.

⁸⁴ Syracuse University, “About Operation Endure and Grow,” Syracuse, NY, at <http://www.whitman.syr.edu/EndureAndGrow/About/>.

regular 7(a) loans through September 30, 2010, or when appropriated funding for the subsidies and loan modification was exhausted. P.L. 111-240, the Small Business Jobs Act of 2010, authorized the Secretary of the Treasury to establish a \$30 billion Small Business Lending Fund (SBLF) to encourage community banks with less than \$10 billion in assets to increase their lending to small businesses (about \$4.0 billion was issued) and a \$1.5 billion State Small Business Credit Initiative to provide funding to participating states with small business capital access programs. The act also provided the SBA an additional \$697.5 million, including \$510 million to continue the SBA's fee subsidies and the 7(a) program's 90% maximum loan guaranty percentage through December 31, 2010, and about \$12 billion in tax relief for small businesses.⁸⁵ P.L. 111-322, the Continuing Appropriations and Surface Transportation Extensions Act, 2011, authorized the SBA to continue its fee subsidies and the 7(a) program's 90% maximum loan guaranty percentage through March 4, 2011, or until available funding was exhausted, which occurred on January 3, 2011.

During the 112th Congress, the SBA's statutory authorization expired (on July 31, 2011).⁸⁶ Since then, the SBA has been operating under authority provided by annual appropriations acts. Prior to July 31, 2011, the SBA's authorization had been temporarily extended 15 times since 2006.

Also, P.L. 112-239, the National Defense Authorization Act for Fiscal Year 2013, made a number of changes to several SBA programs. For example, among other provisions, the act increased the SBA's surety bond limit from \$2 million to \$6.5 million, and up to \$10 million if a federal contracting officer certifies that such a guarantee is necessary; requires the SBA to oversee and establish standards for most federal mentor-protégé programs and establish a mentor-protégé program for all small business concerns; extended HUBZone eligibility for areas located within a military base closed under the Base Realignment and Closure Act (BRAC) for an additional five years from the date of enactment (January 2, 2013); requires the SBA's Chief Counsel for Advocacy to enter into a contract with an appropriate entity to conduct an independent assessment of the small business procurement goals, including an assessment of which contracts should be subject to the goals; and addresses the SBA's recent practice of combining size standards within industrial groups as a means to reduce the complexity of its size standards by requiring the SBA to make available a justification when establishing or approving a size standard that the size standard is appropriate for each individual industry classification.

Discontinued Programs

Over the years, the SBA has discontinued 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 FASTRAK loan program (now called SBAExpress, which continues), LowDoc loan program, handicapped assistance loan

⁸⁵ P.L. 111-240, the Small Business Jobs Act of 2010, made several changes relating to the SBA's loan guaranty programs. The legislation increased the loan limits for the 7(a) program from \$2 million to \$5 million. It 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. It temporarily expanded for two years the eligibility for low-interest refinancing under the SBA's 504/CDC program for qualified debt. It 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. For further information and analysis concerning P.L. 111-240, the Small Business Jobs Act of 2010, see CRS Report R41385, *Small Business Legislation During the 111th Congress*, by Robert Jay Dilger and Gary Guenther; and CRS Report R40985, *Small Business: Access to Capital and Job Creation*, by Robert Jay Dilger.

⁸⁶ P.L. 112-17, the Small Business Additional Temporary Extension Act of 2011.

program, disabled assistance loan program, and community express pilot program have been discontinued. The SBA has also ended its support of the veterans franchise program (VETFRAN), but the Department of Veterans Affairs continues its support. Also, during the 112th Congress, both the House and Senate Committees on Small Business have considered legislation to legislatively terminate several smaller SBA programs, such as the Drug-Free Workplace Program, and several authorized but inactive programs, such as the lease guarantee loan program, the pollution control loan program, and the small business telecommuting pilot program.⁸⁷

Appropriations⁸⁸

The SBA's appropriation for FY2013 (including supplemental funding for disaster assistance and the effects of sequestration) is a projected \$1.761 billion: \$851.2 million for disaster assistance, \$316.9 million for business loan guaranty credit subsidies, and \$592.9 million for all other programs.⁸⁹

Continuing Resolution Funding

P.L. 112-175, the Continuing Appropriations Resolution, 2013, which provides funding for federal agencies through March 27, 2013, provided the SBA a projected appropriation of \$1.049 billion for FY2013, an increase of about \$130.9 million over its FY2012 appropriation of \$918.8 million. The SBA received an appropriation of \$729.7 million in FY2011.⁹⁰

The SBA was provided a projected appropriation of \$419.9 million for salaries and expenses for FY2013. Included in that amount is \$173.4 million for non-credit programs, such as HUBZones, Microloan Technical Assistance, SCORE, SBDCs, Veteran's Business Development, and WBCs. The SBA was provided a projected appropriation of \$118.0 million for its disaster loan program, \$148.9 million for administrative expenses related to the SBA's business loan programs, \$333.6 million for business loan guaranty credit subsidies, and \$29.3 million for all other SBA programs.⁹¹

The Obama Administration had requested \$1.115 billion for the SBA in FY2013, an increase of \$196.6 million over the SBA's FY2012 appropriation of \$918.8 million. The Administration

⁸⁷ See the legislative history of H.R. 2608, the Continuing Appropriations Act, 2012. Before becoming the legislative vehicle for the continuing appropriations bill, the bill contained the Small Business Program Extension and Reform Act of 2011.

⁸⁸ For further information concerning appropriations for the Small Business Administration and other independent agencies, see CRS Report R42476, *Financial Services and General Government: A Summary of the President's FY2013 Budget Request*, by Garrett Hatch.

⁸⁹ P.L. 111-117, the Consolidated Appropriations Act, 2010; P.L. 111-242, the Continuing Appropriations Act, 2011; P.L. 112-4, the Further Continuing Appropriations Amendments, 2011; P.L. 112-8, the Further Additional Continuing Appropriations Amendments, 2011; P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011; P.L. 112-74, the Consolidated Appropriations Act, 2012; P.L. 112-175, the Continuing Appropriations Resolution, 2013; and U.S. Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*, March 1, 2013, p. 59, at http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjsequestrationreport.pdf.

⁹⁰ Ibid.

⁹¹ P.L. 112-74, the Consolidated Appropriations Act, 2012; and P.L. 112-175, the Continuing Appropriations Resolution, 2013.

requested \$423.6 million for salaries and expenses. Included in that amount was \$159.1 million for non-credit programs, such as HUBZones, Microloan Technical Assistance, SCORE, SBDCs, Veteran's Business Development, and WBCs. The Administration also requested \$167.0 million for the SBA's disaster loan program, \$145.1 million for administrative expenses related to the SBA's business loan programs, \$348.6 million for business loan guaranty credit subsidies, and \$31.1 million for all other SBA programs.⁹²

Supplemental Disaster Assistance

P.L. 113-2, the Disaster Relief Appropriations Act, 2013, provided the SBA an additional \$804 million to address damages caused by Hurricane Sandy, including \$20 million for salaries and expenses, \$5 million for the SBA's Office of the Inspector General, \$520 million for loan modification (subsidy) costs, and \$259 million for administrative expenses (after a transfer of \$1 million to the Department of Veterans Affairs for National Cemetery Administration). The \$520 million for loan modification (subsidy) costs, to remain available until expended, is expected to support approximately \$4.6 billion in direct SBA disaster assistance loans to businesses of all sizes and individuals (including homeowners and renters).⁹³

Sequestration

Under sequestration, the SBA's projected FY2013 appropriation was reduced from a projected \$1.853 billion to a projected \$1.761 billion (a reduction of about \$92.7 million). Of this amount, the SBA's disaster loans program account was reduced by approximately \$44.8 million, business loans program account was reduced by approximately \$24.3 million, Office of the Inspector General's account was reduced by approximately \$1.1 million, Office of Advocacy's account was reduced by approximately \$459,000, and the SBA's salaries and expenses account was reduced by approximately \$22.0 million.

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⁹² U.S. Office of Management and Budget, *The Appendix, Budget of the United States Government, Fiscal Year 2013*, pp. 1265-1275.

⁹³ The Administration had requested an additional \$805 million in budget authority for SBA disaster assistance to address damages caused by Hurricane Sandy, including \$50 million for salaries and expenses, \$5 million for the SBA Office of the Inspector General, \$500 million for loan modification (subsidy) costs, and \$250 million for administrative expenses. See U.S. Office of Management and Budget, *Hurricane Sandy Funding Needs*, December 7, 2012, at http://www.whitehouse.gov/sites/default/files/supplemental__december_7_2012_hurricane_sandy_funding_needs.pdf.pdf.

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