SUBCOMMITTEE HEARING ON PROGRAM HARMONIZATION IN RURAL AMERICA - HOW THE SBA AND USDA CAN WORK TOGETHER TO BETTER SERVE SMALL BUSINESSES

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Wednesday, November 14, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON URBAN & RURAL ENTREPRENEURSHIP
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360 Rayburn House Office Building, Hon. Heath Shuler [chairman of the Subcommittee] presiding.

Present: Representatives Shuler, González, Ellsworth, Fortenberry and Davis.

OPENING STATEMENT OF MR. SHULER

ChairmanSHULER. I now call this hearing to order.

Today we'll examine some of the SBA and USDA programs and whether there are ways to improve their services to small businesses in rural America.

This Subcommittee wants to ensure that the programs of these agencies can be maximized to benefit the nation's nearly 2 million farm owners and their communities. Small businesses are the backbone of rural America. And if we are spending Federal dollars to assist them, we need to get the most out of the taxpayer's dollar.

With cooperation efforts both from the SBA and the USDA can promote greater economic development.

As part of this effort, Mr. Fortenberry and I have led a bipartisan effort to ask the GAO to look at this issue. In June, Mr. Fortenberry, Mr. Chabot and I requested that the GAO review and report on a collaboration and cooperation between the SBA and USDA. These agencies have had success in helping rural economy. However, the Federal Government has not looked close enough to see if there are ways to improve these efforts.

Given their similar economic development goals of these agencies it only makes sense to look at ways of coordination and efforts to help local businesses.

The agencies have had a role in providing family farmers with new business alternatives. These programs at the USDA have mostly focused on serving our rural economics and agricultural industries. The SBA has also had a role in ensuring that businesses in the rural communities have accessed to capital as well as technical assistance.

Small business development centers and women's business centers have played a critical role in providing advice and expertise to assist these business growth. With access to capital to these areas there are significant SBA lending that goes to our rural communities.

In recent history, however, we have seen how gaps have existed between these agencies. One of the most discussed has been the access of disaster assistance program. Farmers are often unable to use SBA disaster loans and instead must way for the Federal Disaster Assistance to be declared.

There have been also questions whether the SBA lending and the farm credit services are covering the complete needs of the rural small businesses.

Today's hearing will allow us to examine the SBA and the USDA programs have worked and gain a better understanding of how they can better work together.

Considering that small business dominates rural economies, it only makes sense. The Federal Government support through the SBA and the USDA to rural Americans assures opportunities and stability often spurring the entrepreneurial spirit.

Today we will have the opportunity to hear from the GAO on the status of their report as well as hear from the stakeholders on the issues that the GAO should be examining.

I appreciate all the witnesses being here today.

And at this time I would like to recognize the Ranking Member Mr. Fortenberry for his opening statement.

OPENING STATEMENT OF MR. FORTENBERRY

Mr.FORTENBERRY. Thank you, Mr. Chairman. And thank you all for coming today and, Mr. Chairman, for your agreement to hold this hearing.

We are here to talk about the harmonization of programmatic elements in rural America. Our Government employs a wide variety of tools in its efforts to improve the abilities of families and community to better themselves through economic growth and entrepreneurship. Some of these programs are targeted and well coordinated, but we believe that progress can be made in shaping the resources of the U.S. Department of Agriculture and the Small Business Administration to ensure that they work effectively well together.

We all understand the necessity of drawing efficiency from each tax dollar. Part of this efficiency is ensuring that different Government agencies work well in tandem with each other. This challenge was identified in a GAO report alluded to by our Chairman two years, which recommended that agencies define and articulate common outcomes, agree upon agency roles and responsibilities, operate across agency boundaries as well as reduce cost by pooling resources.

The USDA through its Rural Development Office and the Small Business Administration share the common goal of improving the economic opportunity for all of America. And particularly economic development in rural areas has been the focus of the USDA, and Administrator Preston to his credit has made it a goal of the SBA to focus on addressing the needs of underserved communities as well.

Rural American certainly fits that definition. The SBA through its loan programs, technical assistance, Federal contracting serves thousands of small businesses and creates jobs. Rural Development, while organized differently, has a broad network of offices in almost every rural county in our country and operates a variety of grant and loan programs targeted at rural communities.

While Rural Development has a wide footprint in rural America, the SBA maintains a limited number of offices, mostly in larger cities in partnerships with colleges and universities as well. While its effectiveness is not questioned, the SBA is less accessible to rural communities, particularly in large states such as my own, Nebraska.

For an entrepreneur in rural Nebraska a small business development center or Rural Development office may be the point of first contact to see what resources are available for beginning a new venture. New businesses in rural economies stimulate job growth and provide needed diversification to communities that have been in the past reliant, perhaps, on a few large employers many of whom downsize or close plants. These entrepreneurs need to be able to utilize all the appropriate assistance as they begin their business. And officials in these officials need to be flexible in directing their constituents to the most productive program.

The issue we are discussing today holds a great deal of promise, I believe, for entrepreneurs and rural communities. The ability to coordinate the programmatic elements of these agencies is vital to the empowerment of small businesses. And I also believe this effort could very well serve as a model to stimulate cooperation among agencies in the Federal Government with other similar missions.

Thank you again, Mr. Shuler, for your leadership on this important issue. And I look forward to our witness' testimony today. And thank you all for coming.

ChairmanSHULER. Thank you, Mr. Fortenberry.

We'll now move to testimony from the witnesses. Witnesses will have five minutes to deliver their statement. The yellow light that comes on means that you have one minute remaining and red means wrap it up. We're not too technical, as you can see.

But our first witness is Bill Shear, Director of Financial Markets and Community Investments at the GAO Office. Mr. Shear oversees the GAO report on Collaboration and Cooperation of the USDA and the SBA Programs.

Mr. Shear, welcome. And thank you for your testimony.

STATEMENT OF WILLIAM SHEAR, DIRECTOR OF FINANCIAL MARKETS AND COMMUNITY INVESTMENTS

Mr.SHEAR. Thank you very much.

Mr. Chairman, Mr. Fortenberry and Members of the Subcommittee, I am pleased to be here today to discuss our preliminary views on the potential for increased collaboration between SBA and USDA Rural Development offices.

I will provide preliminary views on:

First, mechanisms that SBA and USDA have used to facilitate collaboration with other Federal agencies and with each other.

Second, the organization of SBA and Rural Development offices across the country, and;

Third, the planned approach for our recently initiated evaluation on collaboration between SBA and Rural Development.

In summary, first, while SBA and Rural Development are not currently involved at the agency-wide level in a collaborative working relationship, SBA and Rural Development have used a number of different mechanisms both formal and informal to collaborate with other agencies and with each other.

For example, both agencies have used the Economy Act, a general statutory provision that permits Federal agencies under certain circumstances to enter into mutual agreements with other Federal agencies to purchase goods or services and take advantages of specialized experience or expertise.

SBA and USDA use the Act to enter into an interagency agreement to create rural business investment companies to provide equity investments to rural small businesses. In this case the legislation creating this rural investment program recommended that Rural Development manage the program with the assistance of the SBA because of SBA's investment expertise and experience, and because the program was modeled after SBA's SBIC program.

Second, both SBA and Rural Development have undergone restructuring that has resulted in the downsizing and greater centralization of each agency's field operations. Currently SBA's 68 field offices are still undergoing a transformation to more centralized structure. Rural Development has largely completed its transformation, but continues to have a large presence in rural areas through a network of hundreds of field offices. Rural Development's recognized presence in rural areas and expertise in the issues and challenges facing rural lenders and small businesses may make these offices appropriate partners to help SBA deliver services.

Third, at your request we have recently begun a review of the potential for increased collaboration between SBA and Rural Development. In general, the major objections are to examine the differences and similarities between SBA and Rural Development programs. Any cooperation that is already taking place between SBA and Rural Development, and any opportunities for or barriers to collaboration involving the two agencies. And then, obviously, looking for solutions on how to address those potential barriers.

It is a pleasure to be here today. I'd be happy to answer any questions you may have.

[The prepared statement of Mr. Shear may be found in the Appendix on page 26.]

ChairmanSHULER.

Thank you, Mr. Shear.

Our next witness is Mr. Dale Carroll, President and CEO of Advantage West Economic Development Group from my District in Fletcher, North Carolina. Advantage West is nonprofit, public/private partnership to focus on marketing west North Carolina for business and corporation development.

Bill, thank you for being here today. I look forward to your testimony.

STATEMENT OF DALE CARROLL, PRESIDENT AND CEO, ADVANTAGE WEST ECONOMIC DEVELOPMENT GROUP

Mr.CARROLL. Good morning. And thank you, Congressman Shuler and Ranking Member Fortenberry. We appreciate this opportunity very much.

As the Congressman just mentioned, Advantage West is a regional economic development organization. We serve 23 counties in western North Carolina, the mountains of North Carolina. We have been involved in economic development for 15 years now. We have diversified our program of work over the years. Organizations like the Southern Economic Development Council, publications like Economic Development America have noted that we probably have the most diversified economic development program of any regional EDC in the country.

Several months ago we implemented through our Blue Ridge Entrepreneurial Council Division a program called Certified Entrepreneurial Community. This program is patterned after a certified industrial site program that we implemented in the mid 1990s. It's a checklist, if you will. Certified Entrepreneurial Community is a designation that we currently have 12 counties in our region pursuing as well as the eastern band of the Cherokee Indian.

The goal of the Certified Entrepreneurial Community Program is to make a local community entrepreneurial ready. It takes entrepreneurship and pushes it down to the grassroots level.

Entrepreneurship is so important in our mountain economy. We've seen the closure of branch plants in the manufacturing sector. We've seen the shifts of the manufacturing base that is so reflective of other parts of the country in rural America.

In our particular case we have made entrepreneurship a major strategy at Advantage West for the future of our region.

We are here today to recommend to you that as you look at coordinating and collaborating for higher levels of effectiveness the programs of the SBA and the USDA, that you consider piloting your work with Advantage West in our 23 county area. I'll give a quick example.

Two of the most popular programs in economic development, and I would add they have been very effective in North Carolina, are the SBA 504 Loan Program and the USDA Business Industry Loan Guarantee Program. Think of it like this: With the new Certified Entrepreneurial Community program we have a mechanism in place at the local level where we are encouraging the communities to become more effective in working with small businesses and entrepreneurs. There literally is a checklist that they have to go through. They have to document that they have improved the permitting process at the community level. They have to list all of the capital providers that they have in their local area. What organizations can provide technical assistance as well as financial programs for startup companies. But the real bonus that comes out of this is that improving the business climate in this manner to make a community entrepreneur ready also makes it better for existing business as well.

So what we are saying is how about the SBA 504 Loan Program, the USDA Business Industry Loan Guarantee Program, think of those being documented in a handbook and on a web site used by a community that achieves the designation as a Certified Entrepreneurial Community. And then we believe there will be better access to these programs at the grassroots level.

Let me close by saying that USDA and SBA have an excellent reputation in western North Carolina. I have many years of experience as an economic developer in North Carolina. And we applaud you for what you are doing today. When you try to improve the effectiveness of two crucial Federal agencies like this, you're just striving for excellence. And that's what this Certified Entrepreneurial Community program is all about. So we applaud you for the spirit of this hearing and what you're trying to do.

Thank you very much.

[The prepared of Mr. Carroll may be found in the Appendix on page 41.]

ChairmanSHULER. Thank you, Mr. Carroll.

Our next witness is Ms. Katy Ziegler, Vice President of Government Relations for the National Farmers Unions. Prior to joining the National Farmers Union in 2003, Ms. Ziegler worked on agricultural policy for Senator Tim Johnson of South Dakota.

You'll be recognized for five minutes, and welcome.

STATEMENT OF KATY ZIEGLER, VICE PRESIDENT GOVERNMENT RELATIONS FOR THE NATIONAL FARMERS UNION

Ms.ZIEGLER. Thank you, Chairman Shuler, Ranking Member Fortenberry for the opportunity to be here today.

National Farmers Union is a nationwide organization that represents family farmers, ranchers, fishermen and rural residents. We are proud of our policymaking process which begins at the local level where those who are most impacted by Federal decisions make our policy.

Our members believe that the family farmer and rancher owned and operated food, fiber and fuel production system is the most economically, socially and environmentally responsible and beneficial way to meet the needs of the nation. While the economy of rural America faces many challenges there are also a number of opportunities for growth and revitalization. Because main street businesses are an important segment of the rural community and generate many jobs, we recommend that Federal policy foster and encourage those businesses providing protection from encroachment from big business monopolies.

The SBA provides an invaluable service and our members supports support its continuation. Unfortunately, many in rural America are unaware of the programs available at SBA due to a lack of communication and outreach to rural residents. Ample small business loan resources should be made available through the SBA to credit worthy applications, including those from farmers as ranchers.

As producers diversify their income, historic and traditional lines of credit options are not always available or affordable.

Last year NFU held numerous listening sessions throughout the country to hear directly from producers what they are looking for in Federal farm policy. The number one issue of concern was the lack of a permanent disaster program. Farmers and ranchers have no control over the weather and can face devastating losses when a disaster strikes. Without addressing this hole in the safety net, producers who suffer from those losses will lose profits and all too often their operations.

According to CRS 34 ad hoc disaster packages have been approved since FY 1989 totaling nearly $60 billion. Each measure approved requires the U.S. Department of Agriculture to recreate the program, the implementation plan and often results in new guidelines and delayed sign up requirements for producers.

One of our highest priorities is to make ad hoc disaster assistance a practice of the past and put in place a standing disaster program that provides producers with an assured safety net in the event of a natural disaster and provides USDA certainty, making the program more consistent, reliable and timely for producers.

The advances of renewable energy in fuels from the farm are one of the most exciting economic opportunities across rural America. As this industry grows, it is vital to ensure that the ownership remain in those communities and in the hands of the local farmers. When money is generated from an ethanol or a biodiesel plant it makes a real difference in the lives of those rural citizens. All too often large corporations invest in rural areas, but they take the profits with them instead of reinvesting in the local economy.

I would encourage this Subcommittee to work with your colleagues in the agricultural sector to ensure that all Federal incentive programs used for renewable energy development give a competitive advantage to farmer owned and locally owned projects.

Because of the advancement of renewable energy projects and production we have witnessed the plywood boards coming off of those main street businesses instead of going on. The annual local economic impact of a 40 million gallon ethanol plant in significant. The highlights include an expanded economic base by $110 million, household income increasing by nearly $20 million, about 700 permanent new jobs and an additional $1.2 million created in new tax revenues.

One other exciting economic opportunity for producers is the consumer demand for fresh source verified direct from the farm food. It is the fastest growing segment of the food business. A producer's price is based upon quality and freshness and, in turn, consumers receive a high quality and fresh product that they can trust. That is why there have an explosion of urban farmers markets and direct selling by farmers to consumers, retailers and restaurants throughout the country. It is why restaurants like Agraria here in town, in Georgetown waterfront, which is owned by Farmers Union members is very successful.

This is an opportunity for USDA and the Small Business Administration to evaluate how each could work more closely together to foster the development of this movement.

Mr. Chairman, I thank you for this opportunity and look forward to answering any questions.

[The prepared statement of Ms. Ziegler may be found in the Appendix on page 45.]

ChairmanSHULER. Ms. Ziegler, thank you for your testimony.

Next our witness will be Mike Myhre, the State Director of Minnesota Small Business Development Center. Mr. Myhre is testifying on behalf of the Association of Small Business Development Center.

Mr. Myhre, you have five minutes for your testimony.

STATEMENT OF MIKE MYHRE, THE STATE DIRECTOR OF MINNESOTA SMALL BUSINESS DEVELOPMENT CENTER ON BEHALF OF THE ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTER

Mr.MYHRE. Thank you. Chairman Shuler, Ranking Member Fortenberry, on behalf of the SBDC and the roughly 5,000 dedicated men and women who are part of the America's SBDC network and hundreds of thousands of entrepreneurs and small business owners they serve each year, I would like to thank you and the members of this Subcommittee for inviting me here today.

Mr. Chairman, in my testimony today I will seek to focus my remarks on how SBDCs can build upon its current capabilities and expertise of its national delivery network. I will seek to point out where SBDCs can be leverage by USDA loan and technical assistant programs. I will cite some specific instances where SBDCs have been successful in comparable work. The intent of my effort will be to demonstrate how Congress and Federal agencies, including USDA and others, can reduce the proliferation of duplicative programs and better utilize SBDC partnership program by providing direct support to enhance its capacity to serve rural areas.

First, one of the most serious and historical facing rural entrepreneurs and small business owners is equitable access to adequate capital for business establishment or expansion of an existing business. To help fill this gap both USDA and SBA provide for national assistance through loan and loan guarantee programs. USDA facilities its Business and Industry Guaranteed Loan Program and SBA has its 7[a] loan guarantee and 504 loan program.

SBDCs provide rural small business entrepreneurs with access to these and other capital resources by building and maintaining relationships with various lending resources allowing rural small business entrepreneurs the ability to access and leverage multiple resources to finance a single business venture.

In Minnesota an average SBDC loan deal consists of three and sometimes up to six or seven different sources of capital to complete a successful deal. The fact is that USDA loans have among the highest default rates of any Government loan program. I believe the historical high default rates are a attribute to the lack of loan recipients not receiving critical financial and cash flow management education and consulting. In Minnesota lenders consistently say and indicate that clients who have a loan deal prepared by their local SBDC professional and continue to work with that professional are significantly less likely to default on their business loan and more likely to pay off their loan before maturity. This is an area where ASBDC believes America's SBDC network could collaborate with USDA by being its technical and educational resource partner.

We believe USDA, SBA, ASBDC should work together to develop a memorandum of understanding or other workable funding arrangement whereby SBDCs would be formally recognized by USDA as a financial training provider for those USDA loan recipients.

Furthermore, ASBDC believes that if USDA collaborates and supports SBDC financial and management training and professional business consulting, USDA loan delinquencies and default rates can be substantially reduced by that segment served.

We also have no doubt that SBDC financial and management training and ongoing long term business consulting can greatly enhance the likelihood of long term sustainable and financial success.

SBDC networks from coast to coast have considerable experience and have been recognized for their contributions working with small businesses including rural and agra businesses impacted by disaster. In light of recent fires, hurricanes, floods, drought and disasters like the 35W Bridge collapse in Minnesota, Congress and the public are justifiably interested in the effectiveness of Federal disaster assistance programs, particularly Federal disaster loan programs. In many disasters cooperation and collaboration between the USDA, SBA, SBDCs can be extremely important to the going concern of businesses in the survival of small towns following a disaster. The fact is in a disaster Federal response agencies lack the necessary manpower, and more importantly, the expertise to assist hundreds if not thousands and in some instances tens of thousands of small business owners in need of assistance.

One of the most effective ways that SBDCs can assist small business owners after a disaster is help them successfully complete applications for disaster loans, a process which can add additional frustration and anger to an already tragic circumstance. If leveraged with appropriate USDA resources for enhanced capacity, ASBDC believes that America's SBDC network effectively use its existing national wide structure and expertise to help farmers, ranchers and small businesses in rural communities apply for USDA disaster assistance.

We believe that with ASBDC assistance we can significantly improve the ability of producers, small businesses in rural communities to survive, recover and flourish following a disaster.

In conclusion, one quarter of Americans live in rural areas. Subsequently 20 percent of all businesses are located in rural America. Conversely, individual state SBDC network appropriate anywhere to 50 to 90 percent of their resources to serving rural communities. In Minnesota we appropriate 80 percent of our total resources to produce 70 percent of our deliverables in federally defined rural communities. This demonstrates a clear commitment by SBDCs to serve rural communities and that SBDCs have an existing and established infrastructure to serve rural America.

USDA Rural Development's mission is to increase economic opportunity and improve quality of life for rural residents. If USDA wants to effectively enhance jobs, economic growth in the quality of life in rural America, we should be looking to build funding opportunities for partnerships and collaboration between USDA and America's SBDC network.

I thank the Subcommittee for this opportunity. And we'd be happy to take any questions.

[The prepared statement of Mr. Myhre may be found in the Appendix on page 49.]

ChairmanSHULER. Thank you.

I'd like to recognize Ranking Member Mr. Fortenberry for introduction of our last witness.

Mr.FORTENBERRY. Thank you, Mr. Chairman.

It's my privilege to introduce Mr. Leon Milobar. He is a Nebraska native and he currently serves as the Small Business Administration's District Director back home. Welcome, sir.

Previously he served as the Small Business Administration's District Director in Portland, Oregon, and was also an Associate State Director for the Nebraska Business Development Center.

Mr. Milobar, welcome and we look forward to your testimony.

STATEMENT OF LEON MILOBAR, NEBRASKA DISTRICT OFFICE, U.S. SMALL BUSINESS ADMINISTRATION

Mr.MILOBAR. Thank you.

Good morning, Chairman Shuler, Ranking Member Fortenberry and members of the Committee. Thank you for the opportunity to speak with you today regarding United States Small Business Administration programs that support rural small business owners and entrepreneurs.

Small businesses account for two-thirds of our rural jobs and comprise more than 90 percent of all rural establishments. Under Administrator Preston's leadership the agency has a renewed focus on ensuring that its products and services and accessible to entrepreneurs in the nation's most underserved markets, including the rural small businesses.

I'm Leon Milobar, and I am the District Director of United States Small Business Administration, Nebraska. Prior to serving as District Director in Nebraska I served as the District Director in Portland, Oregon. And prior to that, I served as Associate State Director for the Nebraska Business Development Center.

As an Associate State Director for Nebraska Business Development Center I was responsible for the management and technical assistance that small businesses received throughout Nebraska. This included SBA Small Business Developments Centers and the manufacturing subcontract extension program through the Nebraska Department of Economic Development, and U.S. Commerce Department and the Procurement Technical Assistance Center.

In 2005 while serving as District Director in Oregon the local SBA office met with U.S. Department of Agriculture Rural Development and the Oregon Economic and Community Development Department in a collaborative effort to provide lender training on various Federal and state government loan guarantee programs.

From 2005 to 2006 approximately 12 training sessions were held throughout Oregon and the sessions were attended by over 400 bankers. This collaborative effort resulted in additional loan activity and exposure for the agencies involved with the rural community. The Portland District Office realized a 30 percent increase in loan volume over the past fiscal year, an increase we believe our collaboration with USDA contributed to.

During my brief time in Nebraska District Office we have implemented the same basic initiative. I personally visited with the state Economic Development Department and the USDA Rural Development shortly after my arrival in Nebraska. In meeting with USDA Rural Development I produced the materials and an initiative design that was used in Oregon to spur interest in a USDA/SBA collaboration in Nebraska. The interest level from USDA was considerable, and we began working on the program roll out that very day.

Currently the initiative is only a test phase in Nebraska, but we've had very good attendance by bank loan officers in the state. There have been two programs which have been held, one in Omaha and the other in Kearny, Nebraska. The attendance from these two events was impressive. Approximately 90 bankers and economic development professionals attended.

This joint training program serves as an important tool because it is used to educate and reacquaint loan officers with government guaranteed loan programs. There is a significant amount of loan officer turnover and many of the loan programs change. So this lender training is crucial for all parties involved.

At the end of the event we discuss the technical resources that are available throughout the state for the benefit of small businesses. These include all the business assistance programs that SBA provides, as well as additional resources that loan officers can use in putting a loan package together.

In Nebraska, this includes 7 SCORE chapters, 7 Small Business Development subcenters and a women's business center with 7 regional locations which are supported by funding through SBA.

SBA has a good reach in terms of technical assistance with the Small Business Development Centers, SCORE and women's business centers throughout the state. In Nebraska, SBA has a fairly large footprint in terms of lenders. We have agreements with approximately 350 banks throughout the state.

SBA's fully committed to serving our nation's underserved markets, including our rural community. In September of this year SBA announced a new loan processing initiative designed to spur economic growth in rural communities by encouraging rural lenders, including community banks and credit unions, to finance small businesses and entrepreneurs with SBA resources. Rural Lender Advantage is part of a broader SBA goal to increase access to capital in regions that face unique challenges due to factors including population loss and high unemployment rates. This streamlined process is part of SBA's 7[a] loan program and encourages small rural lenders to partner with SBA by requiring less paper and offering services on line.

This process is intended to increase SBA's market penetration in rural areas. It is being tested in Colorado, Montana, South Dakota, North Dakota, Utah and Wyoming. The agency expects there will be 3,000 to 4,000 loans made in the first year of implementation. We are excited about the introduction of this new service and anticipate great results.

American's rural communities is essential to the nation's economy, and SBA is committed to encourage entrepreneurs and furthering job growth in rural regions.

This concludes my testimony. And I look forward to answering any questions you may have. Thank you very much.

[The prepared Statement of Mr. Milobar may be found in the Appendix on page 64.]

ChairmanSHULER. Thank you, Mr. Milobar.

I appreciate all of your testimony.

Mr. Shear, I understand that the Office of the Rural Business Investment Program obviously is no longer in existence. But were you able to create any cooperation between the two agencies through this particular program? Was there any relationship between the USDA and Small Business Administration?

Mr.SHEAR. Based on the work that we've begun, it seems like our relationship had been developing, as was called for by the legislation creating the program. There were some difficulties identifying investment companies, there was a settling at one investment company and there was the rescission of the funding. But it appears to us, we were told basically by SBA and USDA that a collaborative relationship was at least developing.

We know that there was a fairly extensive process for creating regulations and rules that would help to govern the program. So there seemed to be some collaboration there, and we'll be following up on that.

ChairmanSHULER. When the SBA and the USDA went through their reorganization or reforming—you know, obviously we've gone through the SBA quite extensively in this Committee. When they went that through reprogramming was there any collaboration between the two agencies based on because they're in some instances starting over in a lot of areas, was there any collaboration talked about? Here's what we'd like to do and here's what we're going to do? But any information that you have so far on your research?

Mr.SHEAR. At the agency wide level in that so far our interactions have been with SBA headquarters. I was very glad to hear of some of the efforts going on, let's say, in Nebraska and what had occurred in Oregon. But at the agency level where we have really begun this work, there isn't evidence that there were collaborative working relationships. In fact, it seemed like these MOUs that went back a great number of years that no longer are being used and there hasn't been the creation, at least at the agency wide level, of anything since. So that's kind of like preliminary of what it looks like to us at this time.

ChairmanSHULER. And I realize, you know, it's only been a very short time period you've been able to do the research. And I thank you for the report, the preliminary report that we have. And we look forward to, hopefully, hearing the testimony after the report is completed and final.

Mr. Carroll, you know do you find that certain businesses would be better off utilizing both the USDA and the SBA technical assistance and lending program as opposed to being just pushed to one or the other?

Mr. CARROLL. I think there could be an up side from the collaboration that you're exploring in this hearing today. And, again, if I go back to my earlier remarks, what we're trying to do through the Certified Entrepreneurial Community program is to make the resources more readily available at the grassroots level. And so it is in fact not just the loan programs, the portfolio programs, but it is the technical assistance and the coaching that's so important. And we think that as a community meets the rigorous standards and guidelines to accomplish the CEC designation, that it is going to be incumbent on them at the local level to have USDA staff, SBA staff, their technical assistance and their programs more readily available to the entrepreneurs in those given communities as well as the existing enterprises.

So, yes, we're encouraging that collaboration and we think we have a platform. Maybe there could be a little test marketing could be done through the 12 counties and the Eastern band of the Cherokee Indian that we are currently working with.

Chairman SHULER. In the follow up, when a business comes in to you and your staff and you're helping direct loan programs, specifically the SBA or the USDA, how do you help direct them? From your experience how do you feel that a particular business is better off with SBA or the USDA?

Mr. CARROLL. Well, the best thing we know to do in a situation is to work with a group called the Technology Commercialization Center. I'll summarize it very quickly by saying it's a program that grew out of an effort at Oak Ridge National Labs and in the Knoxville area. We have now brought that to western North Carolina. Bob Wilson and Todd Fisher are two very experienced business people that are excellent in evaluating business plans. They help startup companies develop execution plans. And it's through that high level of technical assistance and their experience, and the fact that the TCC, the Technology Commercialization Center is an extension of our Advantage West staff, that we are confident we can get people to the right place.

What we're advocating here today is that we have to multiple our efforts. And where TCC is currently based in the central part of the region in Asheville where the Advantage West offices are close by, through the CEC program, the Certified Entrepreneurial Community program we could push it out across all 23 counties, starting with the 12 counties that are currently involved in the CEC program.

Chairman SHULER. Mr. Ziegler, can you explain to the Subcommittee why the permanent disaster program may be necessary for agricultural producers?

Ms. ZIEGLER. Absolutely. I would remind the Committee earlier this year Congress passed an ad hoc disaster package, and that included losses that happened in 2005, 2006 and 2007. And that required a significant amount of political will in order to get that package approved. And it puts producers in an unfortunate position of hoping that if they are a stuck by a disaster, that their neighbor is struck by a disaster so that political will builds to pass that disaster package.

So for three years of disaster USDA just recently announced sign up for that program so producers can go into their local USDA offices and prove their losses and receive some assistance through that package.

So if you had a loss in 2005, today is nearly the end of 2007. That's a long period of time to wait for assistance if you sustain some significant losses. Having a standing and a permanent disaster program would eliminate the political will or the political requirement to pass a disaster package, and that's the number one reason that we have pushed so hard is to have that certainly there for producers when a disaster would hit.

ChairmanSHULER. Why do you think there's been so much resistance of the program?

Ms.ZIEGLER. Well, disaster happen locally. And unfortunately given the budget situation here in Congress, there is not a lot of money flowing freely. And when a disaster happens locally some folks who aren't impacted by those disasters aren't as willing to be as helpful as we would like them to be.

ChairmanSHULER. Thank you.

Mr. Myhre, from your vantage point can you tell us what lending instrument that farmers are asking for when they come into your center. What's the one that's most asked for?

Mr.MYHRE. When farmers come into? Probably more than anything, probably the SBA 7[a] loan program. It's been my experience and my knowledge for the business side of that producer.

My experiences as it relates to USDA loan programs in the state of Minnesota has not been very extensive.

ChairmanSHULER. What discrepancies are you seeing between the two? Why is it more readily available for USDA type loans as opposed to SBA?

Mr.MYHRE. Well, in all honesty I think it was communicated earlier by Ms. Ziegler, is its knowledge or recognition of producers or farmers of the SBDC being a resource for them to assist them with their business and t help them in their loan packaging deals. So in all honesty, they don't make up a very large segment or sector of business client for the SBDC network.

ChairmanSHULER. Mr. Milobar, have you received requests and inquiries from farmers who wish to start an agricultural related business, and how does the USDA benefit? How does it fit into this equation?

Mr.MILOBAR. Each agency has their own financing programs. One of the nice things that I enjoy a very good relationship with the business and industry people at the USDA. And in the event that I do not think that it fits us, our program, our agency, I will call or have the Director of the USDA Rural Development, I will have them call.

I've had previous instances when I was in Oregon an individual in a rural part of the state asked me, it was a referral from Senator Smith. And we basically, all the agencies stepped forward, SBA, USDA and the Oregon Community and Economic Development Department because there's a variety of things that we could each provide, but they were looking for the best possible deal in terms of how fast they could get the money, the cost of money and overall terms.

So when we get requests, we realize that sometimes we just have to go ahead and make that phone call so that the individual, it fits the client.

ChairmanSHULER. Besides a senator asking for the request, how often does it happen just from your own judgment standpoint in conducting day-to-day business?

Mr.MILOBAR. I have not tracked. I could not tell you. We get quite a few calls from the financial institutions who are calling us. We probably get maybe one or two calls a week and there are certain types of ag related businesses that we do and can finance.

ChairmanSHULER. How do you feel like the coordinated effort is between the SBA and the USDA?

Mr.MILOBAR. As I described in my testimony, I've walked across the street. I know some of these individuals personally. That's how we typically have done business in Nebraska. So I had a relationship when I was with the SBDC program with the USDA Rural Development in a number of other programs. And also with the Department of Economic Development. This was one of those things for me to be able to do my job properly, you know, it's necessary for me to go ahead and reach out to other organizations and agencies to go ahead and get it done properly.

ChairmanSHULER. Do you feel that Nebraska is just an exception to the rule or do you feel that there's a corroborated effort throughout all of the states?

Mr.MILOBAR. First of all, it depends on leadership and what is happening. You know I can address what I see in Nebraska and some of my some close colleagues that I've worked with in the region. And we've done a very good job of trying corroborate and try to go ahead and deliver services since we are, you know in my particular region, we're all rural so to speak.

ChairmanSHULER. I'd like to recognize Ranking Member Mr. Fortenberry for his questions.

Mr.FORTENBERRY. Thank you, Mr. Chairman.

I'm just going to walk down the panel right quick and make some comments and ask some questions and you all can come back to them because I have some comments and questions.

Mr. Chair, I hope this has been helpful to you today in hearing about some of the innovation that's taking place on the ground without the formalization or codification into law or regulation. And perhaps that can become an important part of the GAO study and report, unpacking some of the initiatives that are occurring here to enhance in a more refined or formalized way the collaboration which we're looking for. So I hope this has been helpful to you as well.

Mr.SHEAR. Did you want me to respond now or go—

Mr.FORTENBERRY. Go ahead, Mr. Shear.

Mr.SHEAR. Okay. It is very useful for us. In fact, it starts with some information that we have asked for and it is kind of trickling in from the agencies Washington of trying to see what is going on out in the field. And I will just mention one report that we are actually issuing and publicly releasing on Friday that looks at women's business centers and coordination with small business development centers and the SCORE chapter.

And here what we are looking for is we know that there are certain things that these resource partners do. We know that there is certain things that go on in maybe a less formal basis, kind of out across the country. And what we are looking for in that case, which I think is relevant here, is to what degree can SBA and Rural Development as agencies use to try to kind of bring those practices that are efficient, that can improve services and how to create a structure where they can be rolled out more across the country.

Mr.FORTENBERRY. Thank you.

Mr. Carroll, I am very impressed with your testimony and appreciate your initiatives on behalf of the people of western North Carolina. Who funds Advantage West? And how many counties are involved when you get the Certified Entrepreneurial Community designation, is that a city, is that a county? And then if you could just briefly walk through the checklist again of key criteria in which a community meets that certification?

Mr.CARROLL. Advantage West is a public/private partnership. We receive a state grant in aid. We also receive support through charitable foundations that are focused on economic development and improving the economic well being of our communities. Private contributions are made to Advantage West and we've also managed a number of Federal grant projects for our 23 county area.

The Certified Entrepreneurial Community program checklist, the key criteria involved in it is better access to capital for entrepreneurs and startup enterprises. Again, improving the business climate at the same time for existing companies.

There is a component focused on community engagement. Community engagement is not only to reach the general public at the adult level, but it's also to drive down entrepreneurial training and concepts in the school systems with the communities that are involved.

There is a telecom broadband component for the Certified Entrepreneurial Community program. We've made great strides in our region with middle mile telecom broadband infrastructure. CEC communities following the checklist are required to develop a plan and pursue funding for last mile deployment. Keep in mind most of our region is very rural.

And then the other thing that I mentioned earlier in my testimony is that we are sincere and earnest about trying to improve the permitting process for small business people at the local level. There has to be a one stop shop of some form or shape documented and implemented for a community to receive the CEC designation.

Mr.FORTENBERRY. When you refer to community, you refer to small town, city or county or all the above?

Mr.CARROLL. Yes, sir. And in response to your other question, the CEC designation could be a municipality. For example, we're in discussions right now with the town of Black Mountain, which is a small town outside of Asheville. It also can be at the country level. And, again, we have 12 counties region wide that are participating in the program.

As I mentioned earlier, it also can be a hybrid. In our case, the eastern band of the Cherokee Indian, their Qualla boundary, as Congressman Shuler knows, touches into several countries. It crosses some county boundaries.

Mr.FORTENBERRY. So your criteria is basically four fold: It's access to capital; education, technical assistance particularly as it takes the form of broadband access, and; reducing governmental regulatory barriers?

Mr.CARROLL. And the only thing I would add to that is the citizen engagement plan, including reaching young people in the school systems.

Mr.FORTENBERRY. That's what I meant by education, but yes.

Thank you very much.

Ms. Ziegler, thank you for your testimony as well. By the way, I'm on the House Agriculture Committee and I offered an amendment that I think would be pleasing to you as establishing a preference in USDA value added grant program for small and medium sized farmers to address the very issue you talked about in terms of ownership at the lowest possible economic level to ensure there's vibrancy in rural communities and not too much of a concentration of the land and wealth and productive means, inputs in the hands of a few which are then exported out of the community generally. So I appreciate that.

The other comment I wanted to make regarding local foods, I think you're exactly right. In terms of rural entrepreneurship this is an undertaking that can provide tremendous benefits both in terms of added value to farmers as well as the social impacts of the reconnection of the farm to the family, and then improve nutritional outcomes. So I think you are dead on there. And we actually hosted a conference with the University of Nebraska this past August to bring together all of the participants in this seminal growing, I won't call it industry, but movement if you will. And I think you are right on there to begin to expose, unpack, teach, educate our country about the potential opportunities there. So thank you.

Mr. Myhre, you had mentioned regarding the association, are you finding some resistance to being called upon more aggressively by either USDA or SBA in terms of providing that technical level of assistance or is it simply just a process by which we continue to develop the good relationships that we are hearing across the panel here?

Mr.MYHRE. On the macro level, yes. On the micro level within individual centers with local USDA staff personnel, you do find some really good and outstanding relationships. But creating those relationships on the state level or even the national level I think, you know, we have encountered certain barriers.

Mr.FORTENBERRY. What would be the reasons for that, or is the association not yet positioned to coordinate aggressively with SBA/USDA? Is it simply the development of this has not yet just come to pass? I mean, is it just presenting opportunities here or are there legal, regulatory impediments to better coordinated resources?

Mr.MYHRE. Well, the association and its board members actually just convened and put together its strategic plan for the next five years. And as part of that plan, it is in working with other federal agencies who do compliment what it is that the SBDC national network does. So we'll be looking at other opportunities and how we can further collaborate with the USDA and working with Congressman Peterson's office to assure that SBDCs are then recognized within the next Farm Bill reauthorization.

So we do have certain strategies to certainly do that.

And we've also through the leadership of SBA and its economic development office and leadership of the association have sat down with OMB, who has basically encouraged or strongly encouraged SBA to support SBDCs working with other Federal agencies.

Mr.FORTENBERRY. Thank you.

Mr. Milobar, welcome again. And appreciate your testimony.

I was very encouraged by the initiative you have undertaken, but very saddened by the fact that they are not in the First District of Nebraska. So I invite you to do what you've done in Omaha and Kearny and Lincoln, South Sioux City, Auburn or anywhere else we can duplicate this. I am very impressed by the outcome of what you talked about. And I think you hit on the right point as well as you, Mr. Myhre, about leadership being a key in how we duplicate what is happening on a micro level perhaps to a macros level, whether that takes the formalization of a codification in law or some new spirit of collaboration is less formal; I don't know. But I think your initiative in Nebraska, particularly, is one that could or should be duplicated nationwide or can serve as a model or prototype, particularly given the outcome that you suggested of 30 percent advancement in the number of applications in a very short period of time. And that is what we would really like to see. So thank you for doing that.

Is there any opportunity that you can to formalize what you've done on an informal basis so that it can be shared with the rest of the nation in terms of other SBA Administrators and USDA Rural Development personnel?

Mr.MILOBAR. First of all, we are coming to Lincoln. Probably be sometime early this winter. As you know, winter is coming to Nebraska very shortly and we have to pick and choose where we are going to go ahead and deliver programs so we do not get snowed in.

But regarding the program, we do share best practices. I know in Region 10, which is Alaska, Oregon, Washington and Idaho, they have looked at these practices that we have had. And as a matter of fact, with the congressional—I should say with the boundaries for the Portland District office, we have already gone into the state of Washington to deliver this exactly same program.

To date in the last two years, they have had 760 lenders that they have touched. USDA asked very shortly after I had left Portland to go ahead and go into another state.

So the word is spreading. It is a best practice. It is one of those things in rural areas that we see that it does work and increases our numbers.

This co-marketing is very, very important. There are advantages to both of our programs. And the lenders are a very important contact when that entrepreneur, that business owner comes in looking for financing.

Mr.FORTENBERRY. Do you think it would be necessary for Congress again to codify that best practice in some way, encourage it in another way that we may not have thought of yet?

Mr. MILOBAR. It was one of the things, as I said, this initiative I have tried—I may tell you something tomorrow or next month and we find another initiative that is that much better, and it is an evolving process.

I will tell you, the first year in Oregon we had 400 lenders, the second year we had only 350 attend.

One of the other things that I see with the age of the commercial loan officers, that they are half my age and I am somewhat concerned. I am constantly retraining these lenders. So what I do today, you know, may be quite different tomorrow.

Mr. FORTENBERRY. Well, I think you have struck on a key idea, just in terms of sharing information about best practices. And, Mr. Shear, I know you are listening intently. And I think that would be a good one to potentially unpack as we look at new initiatives to more formalize this collaboration that is currently at a macro level.

So thank you, Mr. Chairman.

Chairman SHULER. I would like to follow up with the other question. We had the Administrator in some months ago. And we had talked about sustainable renewable energies when it comes to with the SBA and how they have been able to put a program. And that, some due to reorganization, they had really not gotten to the point where they are talking about the ethanol plants or the biodiesel plants, how that is impacted in SBA. Has anyone from the USDA had a relationship with, whether it be a biodiesel, ethanol plant for sustainable renewable energies and having to be able to get those types of loans? Has anyone had any relationship with any business that had a difficulty because of the SBA not truly having that organization quite complete yet?

Ms. ZIEGLER. I believe that some of our members take advantage of the value added grant program which is administered by USDA and the section 9006, which is included in the Farm Bill. Those are two programs geared towards renewable energy that are administered by the Department of Agriculture. And I do not know that is because of an absence of SBA being—or having a role in that industry or that area, but they are two programs that I know producers do use and take advantage of for renewable energy projects.

Chairman SHULER. It only seems that if we look at some of our smaller businesses, smaller producer that the ethanol, the biodiesel producing as alternative energies certainly in my area, I mean sometimes in our mountains we have what we call vertical water culture. It is hard to plant things up on the side of the mountains, but we have been producing Blue Ridge biodiesels as a perfect example. They have been able to produce working with our local farmers, be able to produce the vegetables that they are utilizing in their biodiesel plant.

You know, Mr. Shear, I think maybe that is a look at an ongoing business that seems to me there is a substantial area of growth that we can start this collaboration between the USDA and our SBA to be able to work together. We can have the funding and, you know, truly change the dynamics of our energy policy. Because it is going to start with our small businesses. I mean, we can wait on the large corporations as long as we want to, but it really starts with the small businesses and the entrepreneurship and the spirit which they have and willing to make a difference and make it a change. So that may be one area that we can actually truly plug in to say that here is an area that we have not thought about. SBA is just now putting together some of their programs that they had the testimony some months ago. Maybe it will put that collaborative coordination together.

Mr. Shear?

Mr. SHEAR. And I thank you for the suggestion. Because we are looking for certain opportunities that would kind of let us look at what are the possibilities that might be out there where collaboration could lead to a better outcome. And I think it might be consistent with some of the SBA's initiatives in reaching out to underserved markets.

Chairman SHULER. Ms. Ziegler, the farm credit limits typical is limited to on the farm lending. Should the SBA be prepared to assist farmers who wish to engage off the farm business interests?

Ms. ZIEGLER. I think absolutely. As I mentioned earlier, producers are diversifying their income sources and we have producers that are wanting to start a grass feed business, who want to sell soy wax candles or who have a tractor repair company that they start to supplement their income. And some of those types of projects are not always traditional or have traditional or historic types of lending. And I think that it is important to have as many options as possible for investment and potential credit sources throughout rural America.

Chairman SHULER. Mr. Milobar, obviously we talked about sustainable renewable energies. Would it be appropriate through the SBA program to promote different renewable energy types, I mean once that's in place and have you had any conversation with the Administration about renewable energies?

Mr. MILOBAR. No, I haven't. That has not come up on the District level, and that I would have to go ahead and get back to you on.

Chairman SHULER. Well, no one has come in the office and talked about renewable energies outside of in the farming area?

Mr. MILOBAR. Not that I can recall. Not in the last six months that I can recall.

Mr. MYHRE. I can comment on that, Mr. Chair.

In Minnesota we have had both producers who have come to the SBDC seeking to have a small business to help supplement their family income, and we have worked with many of those types of businesses very successfully.

As it relates to SBA funding and their 504 loan program, we have certainly had a lot of alternative bioenergy biodiesel plants come to the SBDC seeking both USDA grants and helping them research and begin those facilities, and then utilizing 504 for the actual facility purchases themselves.

Chairman SHULER. Terrific.

Yes, sir?

Mr. FORTENBERRY. Let me follow up on that line as well.

One of the largest wholesale structural changes that is happening in rural communities is the advent of agricultural energy production, the wedding of agriculture and energy policy is potentially very beneficial in meeting multiple objectives.

First of all, diversifying our energy portfolio clearly in our country.

Secondly, with clean renewable resources meeting environmental stewardship goals, and;

Third is increasing income for farmers.

So as this continues to unfold, as this trend becomes more aggressively emerging, particularly given the market opportunities that are there but also some of the underwriting that should we have a Farm Bill shortly is going to occur with new initiatives in this area as we develop even newer means of means of biomass and cellulosic materials, it is going to create the potential for a lot of different spin-off activities as it related to that.

This is a market change in rural America. And so I think the line of questioning actually suggests something to you all to be into as you do your normalize outreach in terms of market stimulation or thinking through market opportunities where you could potentially better serve. That one is tremendous.

I can give you a very small example. I have a chiropractor entrepreneur who wants to begin to build his back support mechanism through a corn based—it is not plastics, but corn based material versus having it shipped overseas to manufacturers using traditional hydrocarbon. And so the opportunity there, again as we look at the diversification of uses of traditional grain stocks, is going to be extraordinary for our rural communities.

And I could tell you story after story about what we are doing. Mr. Milobar, I am sure you know in Nebraska in terms of trying to position the state to lead this renaissance of rural—the beginning of the renewal resource, renewable energy market that leads the way in our country.

But it is one of those wholesale structural changes coming that is in rural America currently. It is also going to have a lot of spin off effects that will be potentially—that your programs will be potentially called upon to help and fund.

ChairmanSHULER. Any more questions?

I think today we have really made a really good stop for the GAO to finish their report, to continue. You know, it is one thing to look at it on the Washington level of how the two industries, agencies can work together. But it is even more important to recognize how on the ground level, how, what the impact the USDA and the SBA have been able to work together in some ways and in ways that there is void, and that we need to fill that gap to make sure that rural America has the resources, has the capital.

And I want to commend all of you for your comments today, your testimony. And certainly Mr. Fortenberry for his true leadership to bringing this to the Committee's attention and truly putting forth the effort of getting this hearing being heard today. His leadership has been very strong.

And as you can probably tell, that this is a very bipartisan Committee, both our Subcommittee, obviously, and the Committee as a whole. Very bipartisan and we truly want to provide for economic development in the rural communities to ensure that the small business have the advantages. Because that is the backbone behind our economy in America. And we truly create and covet that spirit of entrepreneurship.

So I want to commend all of you.

I look forward to seeing the report. And I hope that the GAO will take the testimony today and continue to look on the ground level where the impact is truly needed most in so many different ways.

I ask unanimous consent that the members have five days to submit statements and supporting materials to this record. Without objection, so ordered.

This hearing is now adjourned. Thank you all.

[Whereupon, at 11:10 a.m. the Subcommittee was adjourned.]

STATEMENT
by the
Honorable Heath Shuler, Chairman

Subcommittee on Rural and Urban Entrepreneurship Hearing
House Committee on Small Business
"Program Harmonization in Rural America – How the Small Business Administration (SBA) and U.S. Department of Agriculture (USDA) Can Work Together to Better Serve Small Businesses."

Today, we will examine some SBA and USDA programs and whether there are ways to improve their services to small businesses in rural America. This subcommittee wants to ensure the programs at these agencies can be maximized to benefit the nation's nearly two million farm owners and their communities.

Small businesses are the backbone of our rural communities, and if we are spending federal dollars to assist them, we need to get the most for our taxpayer's dollar. With a coordinated effort, both the SBA and USDA can promote greater economic development.

As part of this effort, Mr. Fortenberry and I have led a bipartisan effort to have the GAO look at this issue. In June, Mr. Fortenberry, Mr. Chabot and I requested that the GAO review and report on the collaboration and cooperation between the SBA and USDA. These agencies have had success in helping the rural economy. However, the federal government has not looked closely enough to see if there are ways to improve these efforts. Given the similar economic development goals of these agencies, it makes sense to look at ways to coordinate their efforts to help local businesses. The agencies have a role in providing family farmers with new small business alternatives.

The programs at the USDA have mostly focused on serving our rural economies and the agriculture industry. The SBA has also had a role in ensuring that businesses in these rural communities have access to capital as well as technical assistance. Small Business Development Centers and Women's Business Centers have played a critical role in providing advice and expertise for these businesses to grow. With access to capital vital to these areas, there is significant SBA lending that goes to rural communities.

In recent history however, we have seen how gaps have existed between these agencies. One of the most discussed has been the access to the disaster assistance programs. Farmers are often unable to use SBA disaster loans and instead must wait for federal disaster assistance to be declared. There have also been questions as to whether the SBA lending and farm credit systems are covering the complete needs of rural small businesses.

Today's hearing will allow us to examine how SBA and USDA programs have worked, and gain a better understanding how they can work better together. Considering that small businesses dominate rural economies, it only makes sense. Federal support through SBA and USDA to rural America ensures opportunity and stability, often spurring the entrepreneurial spirit.

Today we will have the opportunity to hear from the GAO on the status of their report as well as hear from stakeholders on issues the GAO should be examining. I appreciate all of the witnesses coming here today.

Opening Statement	
Hearing Name	"Program Harmonization in Rural America - How the Small Business Administration and U.S. Department of Agriculture Can Work Together to Better Serve Small Businesses
Committee	Subcommittee on Rural and Urban Entrepreneurship
Date	11/14/2007

Opening Statement of Ranking Member Fortenberry

"Chairman Shuler, thank you for agreeing to hold this hearing, and thank you, witnesses, for your testimony today. We are here to talk about program harmonization in rural America. Our government employs a wide variety of tools in its efforts to improve the ability of families and communities to better themselves through economic growth and entrepreneurship. Some of these programs are targeted and well-coordinated, but we believe that progress can be made in shaping the resources of the U.S. Department of Agriculture (U.S.D.A.) and the Small Business Administration (S.B.A.) to ensure that they work together.

"We all understand the necessity of drawing efficiency from each tax dollar. Part of this efficiency is ensuring that different government agencies work well in tandem with each other. This challenge was identified in a G.A.O. report two years ago, which recommended that agencies define and articulate common outcomes, agree upon agency roles and responsibilities, operate across agency boundaries, and reduce costs by pooling resources.

"The United States Department of Agriculture, through its Rural Development office, and the Small Business Administration (S.B.A.) share the common goal of improving economic opportunity for Americans. In particular, economic development in rural areas has been a focus of the U.S.D.A., and Administrator Preston, to his credit, has made it a goal of the S.B.A. to focus on addressing the needs of underserved communities. Rural America certainly fits that definition. S.B.A., through its loan programs, technical assistance, and federal contracting, serves thousands of small businesses and creates jobs. Rural Development, while organized differently, has a broad network of offices in almost every rural county in the nation, and operates a variety of grant and loan programs targeted at rural businesses.

"While Rural Development has a wide footprint in rural America, the S.B.A. maintains a limited number of offices, mostly in larger cities and in partnership with colleges and universities. While its effectiveness is not questioned, S.B.A. is less accessible to rural communities, particularly in large states such as Nebraska.

"For an entrepreneur in rural Nebraska, a small business development center or rural development office may be the point of first contact to see what resources are available in beginning a new venture. New businesses in rural economies stimulate job growth and provide needed diversification to communities that have in the past been reliant on a few large employers, many of whom may downsize or close plants. These entrepreneurs need to be able to utilize all appropriate assistance as they begin their business, and the officials in these offices need to be flexible in directing their constituents to the most productive program.

"The issue we are discussing today holds a great deal of promise for entrepreneurs and rural communities. The ability to coordinate the programmatic elements of these agencies is vital to the empowerment of small businesses. I also believe this effort could serve as a model to stimulate cooperation among agencies with similar missions.

"Today we will hear from a range of witnesses, including an S.B.A. representative from my state of Nebraska who has had the initiative and resolve to address some of these issues on his own. Again, thank you, Mr. Shuler, for your cooperation, and I look forward to the witness testimony."

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United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Rural and Urban Entrepreneurship, Committee on Small Business, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Wednesday, November 14, 2007

SMALL BUSINESS ADMINISTRATION

Preliminary Views on Increasing Collaboration with Department of Agriculture Rural Development Offices

Statement of William B. Shear, Director
Financial Markets and Community Investment

GAO
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GAO-08-278T

November 14, 2007

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Highlights

Highlights of GAO-08-278T, a testimony before the Subcommittee on Rural and Urban Entrepreneurship, Committee on Small Business, House of Representatives

SMALL BUSINESS ADMINISTRATION

Preliminary Views on Increasing Collaboration with Department of Agriculture Rural Development Offices

Why GAO Did This Study

The Small Business Administration (SBA) and Department of Agriculture (USDA) Rural Development offices share a mission of attending to underserved markets, promoting economic development, and improving the quality of life in America through the promotion of entrepreneurship and community development. In the past, these agencies have had cooperative working relationships to help manage their respective rural loan and economic development programs. At this subcommittee's request, GAO has undertaken a review of potential opportunities for SBA to seek increased collaboration and cooperation with USDA Rural Development (Rural Development), particularly given Rural Development's large and recognizable presence in rural communities.

In this testimony, GAO provides preliminary views on (1) mechanisms that SBA and USDA have used to facilitate collaboration with other federal agencies and with each other; (2) the organization of SBA and USDA Rural Development field offices; and (3) the planned approach for GAO's recently initiated evaluation on collaboration between SBA and Rural Development. GAO discussed the contents of this testimony with SBA and USDA officials.

To view the full product, including the scope and methodology, click on GAO-08-278T. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

While SBA and Rural Development are not currently involved in a collaborative working relationship, SBA and Rural Development have used a number of different mechanisms, both formal and informal, to collaborate with other agencies and each other. For example, both agencies have used the Economy Act—a general statutory provision that permits federal agencies, under certain circumstances, to enter into mutual agreements with other federal agencies to purchase goods or services and take advantage of specialized experience or expertise. SBA and USDA used the act to enter into an interagency agreement to create rural business investment companies to provide equity investments to rural small businesses. For this initiative, Congress also authorized USDA and SBA to administer the Rural Business Investment Program to create these investment companies. However, funding for this program was rescinded at the end of fiscal year 2006. SBA and Rural Development have also used other mechanisms to collaborate, including memorandums of understanding (MOU), contractual agreements, and other legal authorities. For instance, Rural Development has collaborated with the Federal Emergency Management Agency in providing assistance to the victims of Hurricane Katrina using the disaster provisions under its multifamily and single-family rural housing programs. To collaborate with each other, in the past SBA and Rural Development have established MOUs to ensure coordination of programs and activities between the two agencies and improve effectiveness in promoting rural development.

Both SBA and Rural Development have undergone restructuring that has resulted in downsizing and greater centralization of each agency's field operations. Currently, SBA's 68 field offices—many of them in urban centers—are still undergoing the transformation to a more centralized structure. Rural Development has largely completed the transformation and continues to have a large presence in rural areas through a network of hundreds of field offices. The program's recognized presence in rural areas and expertise in the issues and challenges facing rural lenders and small businesses may make these offices appropriate partners to help deliver SBA services.

GAO has recently begun a review of the potential for increased collaboration between SBA and Rural Development. In general, the major objectives are to examine the differences and similarities between SBA loan programs and Rural Development business programs, any cooperation that is already taking place between SBA and Rural Development, and any opportunities for or barriers to collaboration.

Mr. Chairman, Ranking Member Fortenberry,
and Members of the Subcommittee:

I am pleased to be here today to discuss our preliminary views on the potential for increased collaboration between the Small Business Administration (SBA) and Department of Agriculture (USDA) Rural Development offices. Given the downsizing that has occurred at SBA district offices and related changes in roles and responsibilities, this is an opportune time to examine the potential for collaboration between SBA and USDA Rural Development (Rural Development). Collaboration that cuts across more than one federal agency is one way for agencies to deliver results more efficiently and in a way that is consistent with multiple demands and limited resources.[1]

Over 80 programs administered by several different federal agencies target rural economic development.[2] Of these, SBA and Rural Development share a mission of attending to underserved markets, fostering economic development, and improving the quality of life in America through the promotion of entrepreneurship and community development. Both agencies offer business loans and grant programs for rural development and play a vital role in spurring economic growth in rural areas. In the past, these agencies have developed cooperative working relationships to help manage their respective rural loan and economic development programs. Additionally, Congress created the Rural Business Investment Program (RBIP) in 2002, which authorized USDA to enter into a joint agreement with SBA to create investment companies that would provide equity investments to rural small businesses.[3] At this subcommittee's request, we are exploring possible opportunities for SBA to seek increased collaboration and cooperation with USDA Rural Development, particularly considering Rural Development's large and recognizable presence in rural communities across the country.

[1]Collaboration can be broadly defined as any joint activity that is intended to produce more public value than can be produced when the agencies act alone. It can include interagency activities that others have previously defined as cooperation, coordination, integration, or networking.

[2]See GAO, *Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported*, GAO-06-294 (Washington, D.C.: Feb. 24, 2006).

[3]Section 6029 of the Farm Security and Rural Investment Act of 2002, Pub. L. No. 107-171, 116 Stat. 134, 387 (2002), codified at 7 U.S.C. §§ 2009cc *et seq.*, amended the Consolidated Farm and Rural Development Act by requiring the Secretary of USDA to establish the Rural Business Investment Program (RBIP).

In my testimony, I will provide preliminary views on (1) mechanisms that SBA and USDA have used to facilitate collaboration with other federal agencies and with each other; (2) the organization of SBA and USDA Rural Development field offices; and (3) the planned approach for our recently initiated evaluation on collaboration between SBA and USDA Rural Development undertaken at your request, including how we plan to apply the best practices for effective collaboration that we identified in prior work.

In conducting this work to date, we met with SBA and USDA officials; obtained information on SBA and Rural Development loan and business programs; and reviewed information from previous GAO reports on the two agencies as well as on practices that can help enhance collaboration among federal agencies.

In summary:

- While SBA and Rural Development are not currently involved in a collaborative working relationship, SBA and Rural Development have used a number of different mechanisms, both formal and informal, to collaborate with other agencies and each other. For example, both agencies have used the Economy Act—a general statutory provision that permits federal agencies, under certain circumstances, to enter into mutual agreements with other federal agencies to purchase goods or services and take advantage of specialized experience or expertise.[4] SBA and USDA used the act to enter into an interagency agreement to create rural business investment companies to provide equity investments to rural small businesses. For this initiative, Congress also authorized USDA and SBA to administer the RBIP to create these investment companies. However, funding for this program was rescinded at the end of fiscal year 2006. SBA and Rural Development have also used other mechanisms to collaborate, including memorandums of understanding (MOU), contractual agreements, and other legal authorities. For instance, Rural Development has collaborated with the Federal Emergency Management Agency in providing assistance to the victims of Hurricane Katrina using the disaster provisions under its multifamily and single-family rural housing programs. To collaborate with each other, in the past SBA and Rural Development have established MOUs to ensure coordination of programs and activities between the two agencies and improve effectiveness in promoting rural development.

[4] 31 U.S.C. §§ 1535, 1536.

- Both SBA and Rural Development have undergone restructuring that has resulted in the downsizing and greater centralization of each agency's field operations. Currently, SBA's 68 field offices—many of them in urban centers—are still undergoing the transformation to a more centralized structure. Rural Development has largely completed the transformation but continues to have a large presence in rural areas through a network of hundreds of field offices. The program's recognized presence in rural areas and expertise in the issues and challenges facing rural lenders and small businesses may make these offices appropriate partners to help deliver SBA services.

- We have recently begun a review of the potential for increased collaboration between SBA and Rural Development. In general, the major objectives are to examine the differences and similarities between SBA loan programs and Rural Development business programs, any cooperation that is already taking place between SBA and Rural Development, and any opportunities for or barriers to collaboration. Among other things, we plan to review relevant laws, regulations, and policies to determine what opportunities or barriers exist to cooperation and collaboration between SBA and Rural Development; evaluate each agency's field structure to determine what opportunities, if any, exist for increased collaboration; contact SBA and Rural Development staff in headquarters and visit selected field offices to determine what cooperation is already taking place between SBA and Rural Development; and interview select lenders that participate in SBA loan programs and Rural Development business programs to obtain their perspectives on SBA loan programs and Rural Development business programs.

We are continuing to design the scope and methodology for our work, and we expect to complete this design phase by February 2008. We discussed the contents of this testimony with SBA and USDA officials.

Background

USDA is, by law, charged with leading and coordinating federal rural development assistance.[5] USDA Rural Development administers the greatest number of development programs for rural communities and directs the highest average amount of federal program funds to these communities. Most of Rural Development's programs and activities provide assistance in the form of loans, loan guarantees, and grants. Three

[5]The Rural Development Policy Act of 1980 designated USDA as the lead federal agency for rural development.

offices are primarily responsible for carrying out this mission: the Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS).[6] RBS administers programs that provide financial, business planning, and technical assistance to rural businesses and cooperatives that receive Rural Development financial assistance. It also helps fund projects that create or preserve jobs in rural areas. RHS administers community facilities and housing programs that help finance new or improved housing for moderate-, low-, and very low-income families. RUS administers electric, telecommunications, and water programs that help finance the infrastructure necessary to improve the quality of life and promote economic development in rural areas.

Since its beginning in 1953, SBA has steadily increased the amount of total assistance it provides to small businesses, including those in rural areas, and expanded its array of programs for these businesses. SBA's programs now include business and disaster relief loans, loan guarantees, investment capital, contract procurement and management assistance, and specialized outreach. SBA's loan programs include its 7(a) loan guarantee program, which guarantees loans made by commercial lenders to small businesses for working capital and other general business purposes, and its 504 loan program, which provides long-term, fixed-rate financing for major fixed assets, such as land and buildings. These loans are generally provided through participating lenders, up to a maximum loan amount of $2 million. SBA also administers the Small Business Investment Company (SBIC) program—a program that provides long-term loans and venture capital to small firms.

In September 2007, SBA announced a new loan initiative designed to stimulate economic growth in rural areas. The Rural Lender Advantage program, a part of SBA's 7 (a) loan program, is aimed at encouraging rural lenders to finance small businesses. It is part of a broader initiative to boost economies in regions that face unique challenges due to factors such as declining population or high unemployment.

[6]The Office of Community Development (OCD) is also part of USDA's rural development mission area. OCD implements a range of special rural development initiatives and provides support for rural development activities through the field offices.

SBA and USDA Rural Development Have Used a Variety of Mechanisms to Collaborate with Other Federal Agencies and with Each Other

Generally speaking, collaboration involves any joint activity that is intended to produce more public value than could be produced when the agencies act alone. Collaboration efforts are often aimed at establishing approaches to working together; clarifying priorities, roles and responsibilities; and aligning resources to accomplish common outcomes. On the federal level, collaboration efforts tend to occur through interagency agreements, partnerships with state and local governments and communities, and informal methods (e.g. networking activities, meetings, conferences, or other discussions on specific projects or initiatives). Agencies use a number of different mechanisms to collaborate with each other, including MOUs, procurement and other contractual agreements, and various legal authorities.

Both SBA and USDA have used the authority provided by the Economy Act to facilitate collaboration. The Economy Act is a general statutory provision that permits federal agencies to enter into mutual agreements with other federal agencies to purchase goods or services and take advantage of specialized experience or expertise. It is the most commonly used authority for interagency agreements, allowing agencies to work together to obtain items or services from each other that cannot be obtained as conveniently or economically from a private source.

SBA has also used contractual work agreements to collaborate with other federal agencies. For example, SBA has an agreement with the Farm Credit Administration (FCA) to examine SBA's Small Business Lending Companies (SBLC). SBA oversees SBLCs, which are nondepository lending institutions that it licenses and that play a significant role in SBA's 7(a) Loan Guaranty Program. However, SBLCs are not generally regulated or examined by financial institution regulators. SBA entered into a contractual agreement with the FCA in 1999 that tasked FCA with conducting safety and soundness examinations of SBA's SBLCs.[7] Under the agreement, FCA examined 14 SBLCs during a 1-year period. The exams were conducted on a full cost recovery basis and gave both agencies the option to terminate or extend the agreement after a year. The agreement allowed SBA to take advantage of FCA's expertise in examining specialized financial institutions and offered FCA the opportunity to broaden its experience through exposure to a different lending environment.

[7] FCA is the regulator of the Farm Credit System.

Additionally, using the disaster provisions under its traditional multifamily and single- family rural housing programs, Rural Development collaborated with FEMA in providing assistance to hurricane victims. Through this collaborative effort, Rural Development assisted victims of Katrina by (1) making multifamily rental units available nationwide; (2) providing grants and loans for home repair and replacement; and (3) providing mortgage relief through a foreclosure moratorium and mortgage payment forbearance. Rural Development also shared information with FEMA on USDA-owned homes for lease, developed an Internet presence to inform victims of available housing, and made resources available at Rural Development state offices to assist in these efforts.

While SBA and Rural Development are not currently involved in a collaborative working relationship, both agencies have some experience collaborating with each other on issues involving rural development. Specifically, on February 22, 1977, SBA and Rural Development established an MOU for the purpose of coordinating and cooperating in the use of their respective loan-making authorities. Under the general guidelines of the agreement, appropriate SBA and Rural Development officials were to establish a liaison and periodically coordinate their activities to (1) define areas of cooperation, (2) assure that intended recipients received assistance, (3) enable both agencies to provide expeditious service, and (4) provide maximum utilization of resources.

Again on March 30, 1988, SBA and Rural Development agreed to enter into a cooperative relationship designed to encourage and maximize effectiveness in promoting rural development. The MOU outlined each agency's responsibilities to (1) coordinate program delivery services and (2) cooperate with other private sector and federal, state, and local agencies to ensure that all available resources worked together to promote rural development. SBA and Rural Development officials told us that the 1977 and 1988 agreements had elapsed and had not been renewed.

Finally, in creating the RBIP in 2002, Congress authorized Rural Development and SBA to enter into an interagency agreement to create rural business investment companies. Under the program, the investment companies would leverage capital raised from private investors, including rural residents, into investments in rural small businesses. The legislation recommended that Rural Development manage the RBIP with the assistance of SBA because of SBA's investment expertise and experience and because the program was modeled after SBA's SBIC program. The legislation provided funding to cover SBA's costs of providing such assistance. A total of $10 million was available for the RBIP in fiscal years 2005 and 2006.

Rural Development and SBA conditionally elected to fund three rural business investment companies. However, according to SBA officials only one of these companies has been formed because of challenges in finding investment companies that can undertake such investments. Section 1403 of the Deficit Reduction Act of 2005 rescinded funding for the program at the end of fiscal year 2006. In March 2007, Rural Development began the process of exploring ways to continue the RBIP, despite the rescission.

SBA and Rural Development Both Have a Field Office Network, but Rural Development Appears to Have a More Recognized Presence in Rural Areas

Both SBA and Rural Development have field offices in locations across the United States. However, Rural Development has more state and local field offices and is a more recognized presence in rural areas than SBA. Prior to its 1994 reorganization, which resulted in a more centralized structure, USDA had field staff in almost every rural county.[8] Consistent with its reorganization, and as we reported in September 2000, USDA closed or consolidated about 1,500 county offices into USDA service centers and transferred over 600 Rural Development field positions to the St. Louis Centralized Servicing Center.[9] What resulted was a Rural Development field office structure that consisted of about 50 state offices, 145 area offices, and 670 local offices. As part of the reorganization, state Rural Development offices were given the authority to develop their own program delivery systems. Some states did not change, believing that they needed to maintain a county-based structure with a fixed local presence to deliver one-on-one services to rural areas. Other states consolidated their local offices to form district offices. For example, when we performed our audit work in 2000 we found that Mississippi, which maintains a county-based field structure, had more staff and field offices than any other state. Today, Mississippi still maintains that structure and has a large number of field offices, including 2 area offices, 24 local offices and 3 sub-area offices. The Maine Rural Development office changed its operational structure, moving from 28 offices before the reorganization to 15

[8]Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Pub. L. No. 103-354, 108 Stat. 3178 (1994).

[9]See GAO, *Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development*, GAO/RCED-00-241 (Washington, D.C.: Sept. 15, 2000).

afterward. In 2000, it operated out of 3 district offices and currently has 4 area offices.[10]

SBA currently has 68 district offices, many of which are not located in rural communities or are not readily accessible to rural small businesses. For several years, SBA has been centralizing some of the functions of its district offices to improve efficiency and consistency in approving, servicing, and liquidating loans. Concurrently, SBA has also been moving more toward partnering with outside entities such as private sector lenders to provide services. SBA's district offices were initially created to be the local delivery system for SBA's programs, but as SBA has centralized functions and placed more responsibilities on its lending partners, the district offices' responsibilities have changed. For example, the processing and servicing of a majority of SBA's loans—work once handled largely by district office staff—have been moved from district offices to service centers. Moreover, as we reported in October 2001, there has been confusion over the mission of the district offices, with SBA headquarters officials believing the district office's key customers are small businesses and district office staff believing that their key customers are the lenders who make the loans.[11] Currently, SBA is continuing its workforce transformation efforts to, among other things, better define the district office role to focus on marketing and outreach to small businesses.[12]

We plan to evaluate the extent to which Rural Development offices may be able to help market SBA programs and services by making information available through their district offices. It appears that Rural Development has an extensive physical infrastructure in rural areas and expertise in working with rural lenders and small businesses. Our ongoing work will

[10]Rural Development field offices are responsible for ensuring adherence to program plans approved for the state and for providing staffing support to state offices.

[11]GAO, *Small Business Administration: Current Structure Presents Challenges for Service Delivery*, GAO-02-17 (Washington, D.C.: Oct. 26, 2001).

[12]GAO, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication*, GAO-04-76 (Washington, D.C.: Oct. 31, 2003). SBA's resource partners include organizations such as Small Business Development Centers and Women's Business Centers, which provide management and technical assistance, and the Service Corps of Retired Executives (SCORE) chapters, which provide volunteer business executives to counsel small businesses and potential entrepreneurs.

explore these issues in more depth, including looking at any incentives that exist for Rural Development and SBA to collaborate with each other.

Our Ongoing Work Will Study the Potential for Increased Collaboration between SBA and Rural Development

You requested that we conduct a review of the potential for increased collaboration between SBA and Rural Development, and we have recently begun this work. In general, the major objectives of our review are to determine:

1. The differences and similarities between SBA loan programs and Rural Development business programs,
2. The kind of cooperation that is already taking place between SBA and Rural Development offices, and
3. Any opportunities or barriers that may exist to cooperation and collaboration between SBA and Rural Development.

To assess the differences and similarities between SBA loan programs and Rural Development business programs, we will review relevant SBA and Rural Development documents describing their loan and business programs. We will examine relevant laws, regulations, policies, and program rules, including eligibility requirements and types of assistance, funding levels, and eligible use of program funds. We will obtain data on both agencies' loan processes and procedures, including any agency goals for awarding loans, documentation requirements, and loan processing times.

To determine what cooperation has taken place between SBA and Rural Development, we will examine previous collaboration efforts and cooperation between the agencies in providing programs and services. We will also review documents such as MOUs, informal interagency agreements, and other documentation and will conduct interviews with SBA and Rural Development staff at headquarters and field offices to obtain a fuller understanding of these initiatives.

To determine what opportunities or barriers exist to cooperation and collaboration between SBA and Rural Development, we will review relevant laws, regulations, and policies. We will review data from SBA and Rural Development on each agency's field structure, including office space and personnel, and interview relevant parties on the advantages and disadvantages to co-locating offices. We plan to interview headquarters and field office staff at each agency about past collaboration efforts and any plans to work collaboratively in the future. We also plan to obtain the perspectives of select lenders that participate in SBA loan programs and Rural Development business programs.

We reported previously in March 2007 and October 2005 that effective collaboration can occur between agencies if they take a more systematic approach to agreeing on roles and responsibilities and establishing compatible goals, policies, and procedures on how to use available resources as efficiently as possible.[13] In doing so, we identified certain key practices that agencies such as SBA and USDA could use to help enhance and sustain their efforts to work collaboratively.[14] These practices include (1) defining and articulating a common outcome; (2) establishing mutually reinforcing or joint strategies; (3) identifying and addressing needs by leveraging resources; (4) agreeing on roles and responsibilities; (5) establishing compatible policies, procedures, and other means of operating across agency boundaries; (6) developing mechanisms to monitor, evaluate, and report on results; (7) reinforcing agency accountability for collaborative efforts; and (8) reinforcing individual accountability for collaborative efforts. As part of our ongoing work, we plan to review the extent to which the eight key practices relate to possible opportunities for SBA to increase collaboration with Rural Development. For example, we plan to explore the extent to which these practices are necessary elements for SBA to have a collaborative relationship with Rural Development.

We are continuing to design the scope and methodology for our work, and we expect to complete this design phase by February 2008. At that time, we will provide details of our approach as well as a committed issuance date for our final report.

Mr. Chairman, Ranking Member Fortenberry, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions that you may have.

[13]GAO, *Financial Market Regulation: Agencies Engaged in Consolidated Supervision Can Strengthen Performance Measurement and Collaboration*, GAO-07-154 (Washington, D.C.: Mar. 15, 2007)

[14]GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

Contact and Acknowledgments

For additional information about this testimony, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Affairs and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony included Paul Schmidt, Assistant Director; Michelle Bowsky; Tania Calhoun; Emily Chalmers; and Ronald Ito.

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Subcommittee on Urban and Rural Entrepreneurship
Committee on Small Business
United States House of Representatives

"Program Harmonization in Rural America:
How the Small Business Administration (SBA) and U.S. Department of Agriculture (USDA) Can Work Together to Better Serve Small Businesses."

November 14, 2007

Testimony
Dale B. Carroll
President & CEO
Western N.C. Regional Economic Development Commission
AdvantageWest Economic Development Group

Thank you for the opportunity to testify before your committee about the crucial roles SBA and USDA play in rural economic development. As a veteran economic developer in North Carolina, I can confirm that both of these agencies, their field personnel and programs are well respected and make a difference for our rural communities.

Over the last decade I have had the privilege of working as CEO of the AdvantageWest Economic Development Group which serves a 23-county region in the mountains of western North Carolina. Organizations like the Southern Economic Development Council and publications such as *Economic Development America* have recognized AdvantageWest for having one of the most diversified programs of work in the country. This includes our Blue Ridge Entrepreneurial Council division which launched the Certified Entrepreneurial Community℠ program earlier this year.

AdvantageWest has learned through research that regions that boast a healthy economy and high levels of prosperity are regions that also foster strong entrepreneurial environments. This environment in turn energizes local and outside entrepreneurs to create new business enterprises. The Certified Entrepreneurial Community^{SM} program looks to entrepreneurship and small businesses as key parts of our economic development infrastructure and policy for the future. AdvantageWest is the first region in the country to initiate this rigorous certification process.

The Certified Entrepreneurial Community^{SM} program uses a certification process to raise public and governmental awareness of the need for entrepreneurship and ultimately to create communities of entrepreneurial interests. Governmental bodies and local economic development organizations are certified based on their approach, strategy, and state of readiness to foster entrepreneurship. A key component of the five-step certification process is the requirement that the organization assemble a leadership team comprised of representatives from educational institutions, the private sector, service providers, the chamber of commerce, elected officials, capital providers, and trade associations. AdvantageWest provides training for the leadership teams through the RUPRI Center for Rural Entrepreneurship, a nationally recognized leader in the area of rural entrepreneurship training. Other steps of the Certified Entrepreneurial Community^{SM} program consist of a community readiness certification, community assessment certification, community strategy certification, community capacity certification, and a community evaluation process.

AdvantageWest provides both short and long-term commitments to Certified Entrepreneurial Community^{SM} communities that include co-op marketing opportunities, recognition on AdvantageWest websites, establishment of a revolving loan fund, pursuit of funding for last-mile telecom broadband, and continued staff assistance for participating communities. In addition to the many benefits to the individual entrepreneurs living and working in these communities, the Certified Entrepreneurial Community^{SM} program also enhances the business climate for sustaining existing companies.

A central part of the Certified Entrepreneurial Community^{SM} strategy is to improve access to service providers and capital for entrepreneurs, as well as established businesses. For this reason, AdvantageWest appreciates the spirit of your committee hearing today. As I mentioned earlier, both SBA and USDA are well regarded in the AdvantageWest region. Your interest in how these two agencies can maximize their effectiveness through high levels of collaboration is a great example of the type of outcome we are striving for with the Certified Entrepreneurial Community^{SM} program.

We currently have thirteen communities across our region seeking the Certified Entrepreneurial Community^{SM} designation. Service providers like SBA and USDA are available in all thirteen of these communities in western North Carolina. By using the Certified Entrepreneurial Community^{SM} program as a platform, we can provide better access to the service providers, including their technical assistance and capital programs. Our business certification method requires communities to actively engage service providers like SBA and USDA for the benefit of the entrepreneur and business community. This includes a requirement to list the providers and their programs as resources in handbooks and on websites for the general public. In other words, the Certified Entrepreneurial Community[SM] is all about improving the business climate and making the community entrepreneur ready in both tactical and strategic ways.

Let's take a moment to consider a specific example. Some of the most popular programs in our country for small businesses are the SBA 504 loan and the USDA business/industry loan guarantee. By ensuring that these tools are even more readily available to entrepreneurs, as well as established companies, we have the potential to raise the effectiveness of these two federal agencies at the grassroots level. Moreover, leveraging the experienced professionals at SBA and USDA to provide technical assistance to Certified Entrepreneurial Community[SM] leadership teams and their clients should lead to early success with this new program.

In closing, on behalf of AdvantageWest I wish to recommend to your committee and staff as well as the leadership of SBA and USDA that you consider a pilot project with AdvantageWest when pursuing follow-up efforts related to collaboration of these two vitally important federal agencies. The thirteen communities in the AdvantageWest region that are currently pursuing the Certified Entrepreneurial Community[SM] designation offer a great opportunity for you to test market any new and expanded approaches by SBA and USDA.

Thank you.

National Farmers Union

Testimony of Katy Ziegler

Before the
U.S. House Subcommittee on Rural and Urban Entrepreneurship

Program Harmonization in Rural America – How the Small Business Administration and U.S. Department of Agriculture Can Work Together to Better Serve Small Business

Wednesday, November 14, 2007
Washington, D.C.

STATEMENT OF KATY ZIEGLER

VICE PRESIDENT of GOVERNMENT RELATIONS, NATIONAL FARMERS UNION

U.S. HOUSE SUBCOMMITTEE ON RURAL AND URBAN ENTREPRENEURSHIP

PROGRAM HARMONIZATION IN RURAL AMERICA – HOW THE SMALL BUSINESS ADMINISTRATION AND U.S. DEPARTMENT OF AGRICULTURE

NOVEMBER 14, 2007

Chairman Shuler, Representative Fortenberry and members of the subcommittee, thank you for the opportunity to testify on increasing collaboration between the U.S. Department of Agriculture (USDA) and the Small Business Administration (SBA).

I am the Vice President of Government Relations for National Farmers Union (NFU), a nationwide organization representing family farmers, ranchers, fishermen and rural residents. NFU is proud to be an organization whose policy positions actually come from producers. Polices begin development at the local level and then elevated through to the regional, state and finally, national level.

Our members believe that the independent family farmer and rancher owned and operated food, fuel and fiber production is the most economically, socially and environmentally beneficial way to meet the needs of the nation. While the economy of rural America faces many challenges, there are also a number of opportunities for growth and revitalization.

Because main street businesses are an important segment of the rural community and generate many new jobs, we recommend that federal policy fosters and encourages small businesses, providing protection from predatory encroachment of monopolistic big business. The SBA provides an invaluable service and our members strongly support its continuation. Ample small business loan resources should be made available via SBA to meet creditworthy applications, including those from family farmers. All efforts should be made to reduce the bureaucratic red tape and paperwork requirements so as to not place an undue burden on small entities seeking assistance.

One area of harmonization between SBA and USDA would be requiring all USDA agencies to use its own definition of "small farms", which is a farm with less than $250,000 gross receipts annually, on which day-to-day labor and management are provided by the farmer and/or farm family that owns the production or leases the productive assets. The definition of "small" at SBA is $750,000 in gross annual receipts. This concern has been raised by cranberry growers in Massachusetts in dealing with USDA's Agricultural Marketing Service. Before making a determination of restricting the volume of cranberries to be marketed each year, the agency must evaluate the impact on "small" farms. Under the SBA definition, nearly all growers would be determined "small", but the USDA definition would result in a more accurate focus on "small" farms.

Last year, NFU held numerous listening sessions throughout the nation to hear directly from producers and rural citizens regarding their priorities for federal farm policies. The number one issue of concern among producers was the lack of a permanent disaster program. Farmers and ranchers view the lack of a permanent disaster program as a significant threat to the continued viability of production agriculture. Farmers and ranchers have no control over the weather and can face devastating losses when disasters strike. Without government assistance, farmers and ranchers who suffer from weather-related disasters lose profits and, all too often, their farming operations.

According to the Congressional Research Service, 34 *ad hoc* disaster packages have been approved since fiscal year (FY) 1989, totaling $59 billion. Each approved measure requires USDA to recreate an implementation plan that often results in new guidelines and sign up requirements. A permanent disaster program will ensure a consistent and reliable implementation strategy is in place for any future weather-related disaster. As you know, Congress passed disaster assistance earlier this year for losses that took place in 2005, 2006 and 2007. However, it will not be until late this year or early next year that payments will be made. That is a long time to wait for losses that occurred in 2005.

One of the highest priorities for NFU is making *ad hoc* disaster assistance a thing of the past and moving to a permanent disaster program. A permanent disaster program would provide rural Americans with an assured safety net in the event of natural disasters. It would also allow USDA certainty in how the program operates, therefore making the program more efficient and effective with scarce taxpayer dollars, and more timely for producers. We are very pleased the Senate farm bill includes authorization and funding for a permanent disaster program and the House version included the authorization.

Fuels from the Farm

The advances in renewable energy or fuels from the farm are one of the most exciting economic opportunities for producers and rural communities. This movement is being led by ethanol, but also includes wind, cellulosic and biodiesel efforts. Farmers have wanted to be part of our energy solution for more than 30 years; through decades of risk and investment, agriculture has finally become full partners in this important effort. Rural America is helping to alleviate our reliance on some of the most politically unstable regions of the world and produce fuels from the farm that will continue to assist us in the future.

We should not let anything get in the way of using fuels from the farm and becoming a more energy independent nation. Just as important is ensuring that ownership remains in the hands of local farmers and rural residents. When money generated from an ethanol or biodiesel plant stays in rural communities, it makes a real difference in the lives of rural citizens. All too often we see large conglomerates invest in rural areas, but all of the profits leave without being re-invested in the local economy. I encourage the committee to work with their colleagues in the agriculture sector to ensure that USDA rural development and other departmental programs that are used for renewable fuels give a competitive advantage to farmer-owner and locally-owned efforts.

Because of the advancement of renewable energy production, we have witnessed the plywood boards coming off main street businesses, instead of going up. The annual local economic impact of a 40 million gallon ethanol plant is without a doubt significant. The economic base is expanded by $110.2 million; household income increases $19.6 million; 694 permanent new jobs are created; and an additional $1.2 million is created in new tax revenues. This doesn't include the economic benefits to producers, who receive a greater price for their commodities. We have seen the local price of corn increase by as much as $0.05-$0.10 per bushel in the area around an ethanol plant. Additionally, with an expanded Renewable Fuels Standard (RFS), as included in the Senate-passed energy bill, USDA estimates government payments will decrease to 4 percent of gross cash income for farmers, compared to 7 percent in 2000-2005. Further, USDA estimates the RFS will generate an additional $2-$4 billion in net farm income by 2012.

Buy Fresh -- Buy Local

Another exciting economic opportunity for producers is the consumer demand for fresh, source verified, direct from the farm food. It is the fastest growing segment of the food business.

A producer's price is based upon quality and freshness; in turn, consumers and their families receive high quality, fresh products they want and can trust. That is why there has been an explosion in urban farmers markets and direct selling by farmers to consumers, retailers and restaurants. It is why restaurants like Agraria in Georgetown, owned by Farmers Union members, is doing so well. This is an opportunity for USDA and SBA to evaluate how each could work more closely together to foster further development of this movement.

Consumers want to know where the food they feed their families comes from. Moreover, they are willing to pay for it. Producers no longer have to go on bended knee asking what they can receive for a product. They are now beginning to be price-makers, not price-takers. In fact, a poll conducted shows that 83 percent of consumers want to at least know what country their food comes from. More importantly, 81 percent say they are willing to pay more for it. That is one of the reasons that we urge Congress to ensure that mandatory country-of-origin labeling (COOL) is implemented as soon as possible. As you know, it is working well for seafood. There is no reason it should not be working for the other commodities.

Rising Energy Costs

The agricultural sector in rural America faces significant challenges in the attempt to maintain itself as a viable industry. Added to the unpredictable struggles imposed by weather and a volatile marketplace, farmers have outrageous energy costs. As President Kennedy once said, "there is a saying in agriculture that the farmer is the only entity who buys retail and sells wholesale." Producers purchase all of their operating needs through the marketplace, including the fuel it takes to run a functional farming or ranching operation.

Throughout the past few years, input costs have skyrocketed, attributed primarily to the increase in energy costs. A Kansas State University study documented that non-irrigated crop expenses averaged approximately $115 per acre in 2000; of this, about 26 percent was energy related (fertilizer, fuel). In 2005, the expense per acre was more than $140 and energy accounted for 35 percent of the expenses. Irrigated cropland, with its significant need for energy pumping, shows even more dramatic changes.

The agriculture industry's reliance on foreign oil creates difficulties for farmers and ranchers throughout the country because fuel and fertilizer prices fluctuate rapidly, thereby disabling their ability to accurately project future energy costs. Farmers and ranchers have proven time and time again that they are willing to deal with this growing problem and we see this as an opportunity to both benefit the environment and provide a new venue for economic growth and development.

Farmers and ranchers observe commodity prices which have not kept pace with the rapidly increasing input costs. There is no doubt that the health of the rural economy is linked to the juxtaposition between commodity prices and skyrocketing input expenses as a result of higher energy costs. Producers have no means by which to pass on the higher costs of energy, and Congress should consider approving some type of mechanism to help farmers and ranchers offset the higher input costs.

Mr. Chairman, I again thank you for holding this hearing and for the opportunity to testify. I would be pleased to take any questions at the appropriate point and look forward to working with you and all members of the subcommittee to craft thoughtful approaches to harmonizing federal programs for all small businesses.

Association of Small Business Development Centers®

Statement of

Michael Myhre

State Director
Minnesota Small Business Development Center Network

On Behalf Of

The Association of Small Business Development Centers

November 14, 2007

Before the

U.S. House of Representatives Committee on Small Business

Subcommittee on Rural and Urban Entrepreneurship

Regarding
Program Harmonization in Rural America
"How the Small Business Administration (SBA) and U.S. Department of Agriculture (USDA) Can Work Together to Better Serve Small Businesses."

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Chairman Shuler, Ranking Member Fortenberry, and Members of the subcommittee; I am Michael Myhre, Director of Entrepreneurship and Small Business Development for the State of Minnesota, State Director for the Minnesota Small Business Development Center (SBDC) network and a CPA. I also serve as a member of the Board of Directors and Treasurer of the Association of Small Business Development Centers (ASBDC). ASBDC's members are the sixty-three State, Regional and Territorial Small Business Development Center programs comprising America's Small Business Development Center Network. SBDC network programs are located in all fifty-states (Texas has four, California has six), the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa. The SBDC network is the federal government's largest small business management and technical assistance program with approximately 1,000 service centers nationwide serving more clients than all other federal small business management and technical assistance programs combined.

Chairman Shuler, I would like to thank you and the members of the subcommittee on behalf of the ASBDC, and the roughly 5,000 dedicated men and women who are a part of America's SBDC Network, for inviting me to testify at this important hearing on the topic of "Program Harmonization in Rural America - How the Small Business Administration (SBA) and U.S. Department of Agriculture (USDA) Can Work Together to Better Serve Small Businesses." We commend the sub-committee for holding a formal public hearing on this issue which has significant relevance and impact to many of the 60 million plus Americans who live in and throughout rural America.

The SBDC national program is the SBA's largest economic development resource partner. America's SBDC network consults over 250,000 small business owners and aspiring entrepreneurs annually. In addition, SBDCs train an additional 500,000 individuals on matters of business management.

Examples of rural businesses assisted by an SBDC include such dynamic firms as CMT of Waynesville, North Carolina, a modestly rural community of less than 10,000 residents in Chairman Shuler's District. With the help of the North Carolina SBTDC, CMT has seen its sales grow from $200,000 in 2003 to $750,000 in 2006 with expectations to exceed $1,000,000 in sales in 2007.

Another example is Heavenly Creations of Stapleton, Nebraska, located in Ranking Member Fortenberry's home state. The owners of Heavenly Creations, a husband and wife team, farm a modest 2,000 acres in this rural community of less than 400 residents. Utilizing the services of the Nebraska SBDC in North Platte, Nebraska, Heavenly Creations has grown from a part-time, supplemental family income business with sales of $12,000 to a growing enterprise with expected sales of $70,000 in 2007; its third year in existence.

In 2006, an independent study measuring the economic impact of SBDC professional consulting services among long-term SBDC clients (those who received five or more hours of professional consulting service) attributed the creation of 67,233 new full time equivalent jobs, $6 Billion in sales growth and $480 Million in federal and state tax revenues generated as a result of the SBDC services they received.[1] The same report found that SBDC assistance also saved an estimated 76,820 jobs and saved an estimated $7.1 Billion in business sales. A very modest new job program cost of $2,866, significantly better than other less efficient federal job creation programs, and a return-on-investment rate of $5.46 of total tax revenue generation per federal dollar invested.

Mr. Chairman, in this prepared statement for the subcommittee I will seek to focus my remarks on how SBDCs, SBA's largest and most productive resource partner, can build upon its current capabilities and expertise of its national delivery network to address issues which are of significant importance to the country's rural small business sector. That by providing existing and proven successful programs, like SBDCs, with appropriate resources state SBDC networks can target specific segments of the small business population, including farmers, ranchers, agribusiness and the nations most rural small businesses which rural American depend. I will also seek to point out where SBDCs can be leveraged by USDA programs to benefit rural entrepreneurs and small business owners and cite some specific instances where SBDCs have worked or could work with USDA to enhance the effectiveness of USDA programs for the economic benefit of rural America. The intent of my effort will be to demonstrate how Congress and federal agencies, including USDA and others can avoid creating program redundancy and better utilize the SBA's SBDC partnership program with proven results by providing direct support to enhance its capacity and expand its variety of services to grow rural economies.

COST EFFECTIVE DELIVERY

One-quarter of all Americans live in rural areas. Subsequently, 20 percent of all businesses are located in rural America. Conversely, America's state SBDC networks appropriate 50 to 90 percent of its resources to serving rural communities. This demonstrates a clear

1 Economic Impact of Small Business Development Centers, Counseling Activities in the United States: 2005-2006, Dr. James J. Chrisman, PhD, page 4.

commitment by SBDCs to serve rural communities and that SBDCs are located in rural areas where they may directly best serve this demographic.

SBDCs are well positioned to meet entrepreneur's needs in a cost effective manner. Strengths of the national SBDC network include:

- Commitment to the spirit of entrepreneurial and business development for the long-term prosperity and sustainability of rural America.
- Fully established infrastructure with over 1,000 offices throughout the United States and territories, including an estimated 600 rural locations.
- Expertise of professional personnel, including PhDs, MBAs, CPAs, Economic Certified Professionals, and accredited and certified Business Advisors.
- Strategic partnerships through institutions of higher education, including lead and host Land Grant and accredited colleges and universities, providing access to the most current and valuable sources of business information and business expertise.
- Proven credibility with state business and economic development organizations and experience in delivering new and innovative programs to meet specific needs important to each state and region.
- Well established relationships in the banking and lending community.
- Ability to work across industries in critical areas, assisting more than most other federally funded assistance providers.
- SBDC centers with proven, demonstrated record of improving the managerial and financial performance of firms across industries.
- SBDC centers are explicitly engaged in educational activities which increase the management capacity of the firms; therefore, the benefits are sustainability over time.
- SBDC centers have established high quality standards of continuous improvement programs in place and have the ability, on a national basis, to quickly identify and implement best practices.
- SBDC centers have a history and "culture" of engaging multiple partners to meet their clients' specialized needs.

ACCESS TO CAPITAL

One of the most serious and historical problems facing rural entrepreneurs and small business owners is equitable access to adequate capital for business establishment or expansion of an existing business. Whether a commercial loan or government loan guarantee program, the majority of small business entrepreneurs find the financing process confusing and often discouraging. And when funding is not obtained due to a lack of knowledge about the proper role of capital, it is not just the entrepreneur who loses out but rather the larger economy to which the small business contributes. The problem has been further exacerbated by the recent sub prime mortgage fiasco. Many small business entrepreneurs have traditionally depended on the leverage of home equity loans to leverage a business venture. They now find that avenue of capital all but closed to them. Furthermore, rural small businesses' access to capital is further constrained when less conservative community banks are absorbed by larger conglomerate banks who are less interested in non-credit card small-sized loans, i.e. loans less than $50,000 in size. **SBDCs provide rural small business entrepreneurs with access to capital resources by building and maintaining relationships with various commercial and non-commercial lending resources and various government programs. This allows rural small business entrepreneurs the ability to access and leverage multiple resources to finance a single business venture.** In Minnesota an average SBDC loan package deal consists of three, and sometime up to six or seven different sources of capital to complete a success deal.

SBDCs successfully assist its clients by approaching capital acquisition strategically. SBDC professionals help their clients explore all opportunities for raising capital from all sources which will assure the probability of achieving business objectives while maintaining acceptable business risks. Once appropriate resources are identified SBDC professionals help clients access available financing by assisting the business owner put together a bankable loan package, i.e. completion of the necessary loan applications, projections and pro formas necessary to complete the deal.

In 2007, the Small Business Administration approved 110,275 loans totaling about $20.6 Billion under its two primary small-business loan programs; the 7(a) loan program and the 504 loan program. Many small business owners receiving SBA guarantees and other debt assistance were successful as a direct result of SBDC assistance. Of particular help to successful loan clients was SBDC assistance in helping the small business owner build a workable business plan and assisting the business in getting his or her company's financials in order. In 2006, the latest ASBDC SBDC Economic Impact Study conducted showed SBDC long term consulting clients with five or more hours of assistance obtained $3.4 Billion in financing as a direct result of SBDC consulting services: $1.2 Billion in SBA loans, $1.6 Billion in other debt financing from non-SBA sources, and $0.6 Billion in equity financing. An increasing amount of the $1.6 Billion in non-SBA debt financing came from USDA loan programs.

Commercial and non-commercial loan officers consider SBDC clients better borrowers. SBDC consulting professionals assists small business owners in not only accessing capital but educating and consulting their clients in responsible cash flow management. Furthermore, SBDC professionals maintain long-term, ongoing relationships with their clients to assure business success. Hence, lenders frequently refer their business clients to SBDCs for assistance. Some lenders even insist that their clients' visit an SBDC as a condition before they receive a business loan. In Minnesota lenders have indicated that **clients who have a loan package prepared by their local SBDC are "significantly less**

likely to default on their business loan and more likely to payoff their loan before maturity."

The USDA Farm Service Agency's (FSA) farm loan programs are intended to provide temporary financial assistance for the nation's farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms. The purpose of these loan programs mimic those of SBA's 7(a) and 504 loan programs which SBDC professionals have extensive experience. Through its loan programs, FSA provides various types of both direct and guaranteed farm loans. These USDA direct and guaranteed loan programs, such as the Business and Industry Guaranteed loan program, are a source of credit that SBDC consultants consider for qualified agribusiness clients. Many SBDC consultants are well versed in FSA and other USDA loan programs, however, there are many not as familiar with the dozens of USDA programs which SBDC clients can take advantage.

Point of Cooperation - In an effort to better familiarize SBDC consultants with the myriad of USDA loan programs, ASBDC earlier this year offered a presentation on USDA loan programs during its professional development conference. ASBDC invited LeeAnn Oliver, Deputy Administrator for Cooperative Services in USDA's Rural Development office to make the presentation. Ms. Oliver, a former SBA employee with experience in both SBA's capital access office and SBA's Office of Entrepreneurial Development, gave an excellent presentation which certainly broadened the knowledge of USDA loan programs for dozens of SBDC consultants from across the country. This is an example of how SBDCs, as an SBA resource partner, can continue to cooperate with USDA personnel.

Another example of USDA/SBDC cooperation occurred recently in Ozona, Texas; a community of less than 4,000 residents. The Angelo State University in San Angelo, Texas helped the Regional Consortium for Rural Development apply to the USDA office in Ozona, Texas for funds to establish a Rural Revolving Loan fund. The Consortium's loan application was approved. Currently, the Angelo State University SBDC provides regular marketing assistance to the Loan Fund through the SBDC's weekly newspaper column and its weekly business tips TV spot. To enhance the likelihood of the success of its loan applicants, the Loan Fund requires potential clients to get SBDC assistance before making a loan submission to the loan committee.

According to GAO reports to Congress, USDA loan programs have among the highest default rates of any government loan programs. Statutory and operational changes in recent years, including requiring borrowers to agree to financial and production training have helped bring those default rates down. USDA's requirement for borrower financial training, however, is frequently waived. Many times the waiver is granted because the borrower is unable to find a USDA approved financial training provider in geographical proximity to the borrower's farm, ranch or rural business. **We believe the historical high default rate on USDA loans is due to the lack of borrowers not receiving critical financial and cash flow management education. This is an area where the ASBDC believes the America's SBDC network could collaborate with the USDA.**

America's Small Business Development Center network is one of the most extensive federally supported business educational infrastructures with roughly 1,000 service centers nationwide. The SBDC national network has the expertise and in some areas sufficient capacity to provide the borrower financial training required of many USDA loan program borrowers. Furthermore, SBDC professional consultants, many of whom are CPAs and certified financial professionals, are particularly suited for providing the USDA's required borrower financial training. **We believe USDA, SBA, and the ASBDC should work together to develop a Memorandum of Understanding, or other workable funding arrangement, whereby SBDCs would be formally recognized by USDA as financial training providers for those USDA loan program borrowers who are required by regulation to receive borrower financial training. Furthermore, ASBDC believes that if USDA collaborates and supports SBDC financial and management training and professional business consulting for USDA borrowers, USDA loan delinquency and default rates can be cut substantially by that segment served. We also have no doubt that SBDC financial and management training and on-going, long-term business consulting for USDA loan program recipients can greatly enhance the borrower's likelihood of long-term sustainability and financial success.**

DISASTER ASSISTANCE

SBDC networks from coast to coast have considerable experience and had been recognized for their contributions working with small businesses, including agribusinesses, impacted by disaster. These networks include California SBDCs following the Northridge earthquake in 1994, the North Carolina SBTDC in the aftermath of Hurricane Floyd in 1999, the New York and Virginia SBDCs following the 9/11 terrorists attacks in 2001, the Florida SBDC following hurricanes Charley, Frances, Ivan and Jeanne in 2004, the Louisiana, Mississippi, Alabama, and Texas SBDCs during hurricanes Katrina, Wilma and Rita in 2005, and the Minnesota SBDC following the 35W bridge collapse and river flooding this year just to cite a few.

Indeed, New York SBDC State Director Jim King was honored in 2002 with the SBA's Phoenix Award for Outstanding Contribution to Disaster Recovery by a Public Official for his leadership of the New York SBDC and that network's efforts to assist New York small business firms following 9/11. And the Florida SBDC network, ably directed by ASBDC Board member Jerry Cartwright, was honored by the Department of Commerce in 2005 with one of EDA's six Excellence in Economic Development Awards for the Florida SBDC's efforts to assist small businesses in Florida to recover following the multiple hurricanes that struck Florida in 2004.

In light of the recent fires in Southern California, numerous floods during the past two years, droughts in key agricultural areas and Hurricanes Katrina, Wilma and Rita, Congress and the public are justifiably interested in the effectiveness of federal disaster assistance programs, particularly federal disaster loan programs. In many disasters, **cooperation and collaboration between the USDA, SBA and SBDCs can be extremely important to the going concern of businesses following a disaster.**

When the President issues a Presidential Declaration of Disaster under the Stafford Disaster Relief and Emergency Assistance Act, small business owners adversely impacted in a designated disaster area become potentially eligible for SBA Disaster Assistance. More specifically, under the Small Business Act, Economic Injury Disaster Loan (EIDL) applicants must have suffered substantial economic injury as a result of a declared disaster. Also, when the Secretary of Agriculture issues a disaster declaration to help farmers recover from damages and losses to crops, the Small Business Administration issues a declaration to assist small businesses affected by the disasters impact on the local farm economy. Under such a declaration, SBA's Economic Injury Disaster Loan program is available to farm-related and non-farm-related small business concerns and small agricultural cooperatives that suffered financial losses as a direct result of the disaster. Farmers and ranchers are not eligible to apply to SBA, but nurseries are eligible to apply for economic injury disaster loans for losses caused by drought conditions. Eligible small businesses may qualify for loans up to $1.5 million. These loans are available at a 4 percent interest rate with terms up to 30 years.

When the Secretary of Agriculture issues a declaration of an agricultural disaster, USDA's Farm Service Agency (FSA) provides emergency loans to help producers recover from production and physical losses due to drought, flooding, other natural disasters, or quarantine.

There are many ways that SBDCs can assist USDA support programs following disasters. In a disaster, Federal response agencies lack the necessary manpower and expertise to assist hundreds if not thousands and, in some instances, tens of thousands of small business owners in need of assistance. **One of the most effective ways that SBDCs assist small business owners after a disaster is helping them successfully complete applications for disaster loans.**

Applications for SBA disaster loans are frequently returned to applicants due to incompleteness or missing historical financial information. A vital ingredient of the assistance provided by SBDCs is helping small business owners navigate the application process (e.g. SBA Form 5, SBA Form 1368, SBA Form 413, SBA Form 2202 and IRS Form 8821) and reconstructing unrecoverable financial records. It is commonplace that, during hurricanes, floods and fires, financial records, critical for the successful approval of disaster loan applications, are lost or destroyed. **It has been proven that where SBA disaster personnel work in tandem with their local SBDCs disaster loan approval rates and the going concern of a business affected by a disaster is substantially higher.**

. The SBDC unique advantages to assist in a disaster include:

- A national network of dedicated and certified professional business consultants with unrivaled, empathic business consulting skills and available for deployment from multiple states when needed.

- Strong connection with all sectors of the government and non-governmental communities in each state to act as first responders and distribute accurate information through its strategic partnership networks.

- Expertise in disaster loan requirements, business planning and loan packaging with a proven track record of success.

- Capability of continued interaction, over time, with businesses which are recovering. (SBDC business professionals remain after temporary disaster efforts have gone.)

- A national network that provides a platform for sharing of disaster expertise, training and surge of added human resources when needed.

If leveraged with appropriate USDA resources for enhanced capacity, ASBDC believes that America's SBDC network could effectively use its existing structure and expertise to help farmers, ranchers and rural small businesses in rural communities apply for Farm Service Administration loans in the event of disaster declarations issued by the Secretary of Agriculture.

ENERGY CRISIS

A number of factors underscore the importance of sustainable business practices for the U.S. economy. As this subcommittee is aware, the price of a barrel of oil has quadrupled in the last eight years and has increased roughly 50% in just the last 15 months. These rising energy costs are having severe impacts on small businesses.

Small businesses are disproportionately impacted by increased energy, materials, and finished goods costs. Small Businesses typically operate on lower margins and smaller capital resources, unable to absorb increased costs. A substantial increase energy costs which can't be absorbed by the pass or passed on to the consumer in increased prices it threatens the businesses going concern. When the price of energy, particularly electricity, sky rocketed in California earlier this decade, tens of thousands of California small businesses failed as a result.

The impact on small businesses are significant and startling because:

- Half of the economy consists of small businesses America's 25 million small businesses produce 51% of the nation's private sector output and make 47% of all sales. Small business employs half of all private sector employees.

- Small business consumes 48% of all electricity and 39% of all natural gas used for commercial and industrial purposes in the United States. One-third to one-half of this energy is needlessly wasted.

- America's capacity to actually reduce greenhouse gas emissions relies on small businesses that make, sell, install, and service the products that the task requires.

- Technology innovations to combat global warming come mostly from entrepreneurial small businesses, and Small business is by far the chief creator of new jobs.

In late September of this year, the Department of Agriculture announced that 345 proposals in 37 states had been selected to receive a total of $18.2 million for renewable energy and energy efficiency projects. The grant and loan guarantee/grant combinations are being awarded through USDA's Section 9006 Renewable Energy Systems and Energy Efficiency Improvements program. It provides financial assistance to agricultural producers and rural small businesses to install renewable energy generation systems or to make energy efficiency improvements. Of the $18.2 million total, $13.4 million are grants and $4.8 million are guaranteed loans.

Many SBDCs provide advice to clients, or direct them to non-SBDC resources who can advise them, on how to reduce energy consumption in a time of rapidly rising energy costs. For example, the Pennsylvania SBDC has been recognized nationally for its efforts in helping small businesses to reduce energy costs. SBDCs and the Department of Agriculture should be working more closely together to find ways to enhance the financial ability of rural small businesses and agriculture producers to install renewable energy generation systems and to make energy efficiency improvements.

SBDC programs can provide the necessary support to smaller to medium-sized firms to:

- evaluate energy efficiency/green building opportunities,
- understand the cost benefits of the efficiency measures or green building,
- secure financing to achieve energy efficiency or construction of green buildings, and
- empower management to implement energy efficiency projects.

This approach will provide an array of SBDC delivered services to improve the energy management of small businesses, and engage small businesses in constructing high performance buildings: making them more competitive and reducing energy demands.

By virtue of SBDC locations within institutions of higher education, SBDC programs are ideally positioned to assist entrepreneurs with clean technology development and sophisticated business management related to technology commercialization. Specific programmatic assistance provided in areas such as technology assessment, intellectual property, market assessments, Small Business Innovation Research (SBIR) grant submissions, strategic alliances, business model development, and preparation for investors. A number of SBDC programs have established technical assistance programs to support commercialization of new technologies. Others are well positioned and prepared to provide assistance in these areas with additional resources. As USDA continues to invest in renewable technology development we believe there is opportunity to support SBDC efforts in this area of assistance.

NEXT GENERATION

The population of U.S. agriculture is poised to make a dramatic change - half of all current farmers are likely to retire in the next decade. U.S. farmers over age 55 control more than half the nation's farmland, while the number of entry-level farmers replacing them has fallen by 30 percent since 1987 and now makes up only 10 percent of farmers and ranchers. This next generation of producers will need the business knowledge necessary to complete in an ever increasing global economy.

In September of this year, the GAO, in a letter submitting a requested report to Chairman Harkin of the Senate Agriculture Committee, stated that, " From fiscal years 2000 through 2006, FSA increased the value of its loans to beginning farmers from $716 million to $1.1 billion annually, for a total of more than $6 billion over the period. In addition, beginning farmers received an increasing share of FSA's loan dollars, from a 20 percent share in fiscal year 2000 to 35 percent by fiscal year 2006 — or 27 percent of the amount FSA loaned all farmers over this period. At the end of fiscal year 2006, FSA had 25,064 beginning farmer borrowers in its loan portfolio." It is critical for the future of American agriculture and the protection of the taxpayer that these beginning farmers succeed.

The GAO letter went on to say that, "Moreover, **beginning farmers may not be as knowledgeable as more experienced farmers about** effective farming practices, **financial** and **risk management practices." It is our belief that the USDA's Beginning Farmers and Ranchers Program can be strengthened through the utilization of SBDC financial management training and consulting services.**

ASBDC President Don Wilson made a presentation to the USDA's Farmers and Ranchers Advisory Committee on this subject in 2004. Unfortunately, his offer of cooperation with USDA and assistance to its Beginning Farmers and Ranchers Program has not been acted on.

CONCLUSION

USDA's Economic Research Service (ERS) has been producing some extremely meaningful data on economic changes in rural America. This data has real value to SBDC consultants serving rural clients. However, I would strongly commend to you the following monograph on rural economic change produced by the ERS

> "In the not too distant past, farming was nearly synonymous with "rural." That is no longer the case. While farming remains important as a source of jobs and income in many rural areas and is the largest single user of rural land, it is no longer the dominant rural industry it once was, nor will it likely be again.
>
> In the last four decades, farming employment dropped from just under 8 million to a little over 3 million. The number of farms has gone from 5.8 million to 2.1 million. In the last 20 years, the percentage of the rural workforce employed in farming has gone from 14.4 percent to 7.6 percent. Even by including agricultural services, forestry, and fishing, the share has gone from only 15.3 percent to 8.5 percent.
>
> Today, only about 5 million people, less than 10 percent of the rural population, live on farms. In addition, in 1990, 58 percent of U.S. farm operator households received wages and salary (averaging nearly $30,000 per reporting household) from off-farm employment. For example, one or more household members might work at a manufacturing plant, telemarketing office, or in retail trade. Therefore, even for the remaining farm households, the nonfarm rural economy is a critical source of employment and income.
>
> The decline of farming employment is, in many ways, a consequence of success. Improvements in technology, crop science, and farm management have all boosted

output while reducing the need for labor. Productivity growth has, in turn, led to farm consolidation, declining farm numbers, decreases in farm employment, and consequently a surplus of farm labor. Thus, the ability to produce more with less, while benefiting many, has caused economic hardship for others.

Today, the largest share of rural jobs and employment growth comes from the services sector, which employs over half of all rural workers. This dominance of the services sector mirrors the urban employment picture. Rural services related to recreation, retirement, and such natural amenities as mountains, lakes, shorelines, etc., have emerged as important new sources of rural employment and growth. Other services--financial, insurance, real estate, as well as retail stores, dry cleaners, restaurants, etc.--are also important. And there is anecdotal evidence that advances in telecommunications are enabling still other types of services--telemarketing, data

Manufacturing also is a major provider of both rural jobs and income, providing jobs for nearly 17 percent of the rural workforce and employing more people than farming, agricultural services, forestry, fishing, and mining combined. Manufacturing also provides roughly a quarter of all rural earnings. However, like farming, the share of manufacturing jobs in rural areas has declined. From 1969 to 1992, that share dropped from 20.4 percent to 16.9 percent of rural employment.

Given these changes in the rural economy, and its current structure, the economic future and well-being of most rural people now depend on the availability and quality of jobs in the rural services and manufacturing sectors and the <u>entrepreneurial</u> opportunities in those sectors. "

Based on the above ERS data, if we want to enhance jobs, economic growth and the quality of life in rural America, we should be focusing additional resources on the small business service, retail and manufacturing sectors and the entrepreneurial opportunities in and around these sectors.

The Rural Development Policy Act of 1980 (P.L. 96-355), named USDA as the lead federal agency for rural development. USDA administers most of the existing rural development programs and has the highest average of program funds going directly to rural counties (approximately 50%). With less than 8 percent of the rural workforce employed in farming, and 66 percent of rural workers employed by the service and manufacturing sectors, some may question whether the Department of Agriculture remains the logical lead agency to address rural economic development.

ASBDC and its members have no interest in engaging in that debate. We are interested working to insure that rural small businesses, whether agriculture, retail, service or manufacturing have adequate access to management and technical assistance and training. Dun and Bradstreet has in the past reported that the major reason small businesses fail is because of bad management decisions. If a majority of business owners lack meaningful management training and education, or a reliable resource which the can depend, like an SBDC professional consultant, is it any wonder that many business owners make bad business decisions and that so many small businesses fail?

It is not enough just to be a good tractor repair mechanic. An individual operating a small tractor repair facility needs to understand finance, cash flow management, marketing, human resource management, inventory management, customer service, etc., etc.

Providing small business owners with those types of skill sets is not the forte of USDA personnel. But it is the proven strength of SBDC service centers and their personnel.

The Congressional Research Service in a recent report on this year's farm bill astutely stated:

> While commodity policy dominates much of the debate and most of the funding, production agriculture remains a comparatively small and shrinking part of the rural economy, with less than 8% of the rural population employed in agriculture. There is growing recognition that farmers in many rural areas depend more on a healthy rural economy than the rural economy is dependent on farmers for its vitality. The need to strengthen the capacity of rural areas more generally to compete in a global economy is becoming more widely appreciated as the limitations of commodity subsidies, peripheral manufacturing, and physical infrastructure as mainstays of rural development policy become more obvious.

In Chairman Shuler's state 39.8 percent of the population lives in rural North Carolina. In ranking Member Fortenberry's state of Nebraska, the figure is 30.3 percent. In Congressman Michaud's state of Maine, it's 59.8 percent. In Congressman Ellsworth's state of Indiana, it's 29.2 percent. In Congresswoman Moore's state of Wisconsin, it's 31.7 percent. And in Congressman Davis's state of Tennessee it's 36.4 percent.

ASBDC does not believe Congress should allow rural small business owners and aspiring entrepreneurs to continue to have declining levels of access to quality management and technical assistance. Why, because small business retailers, service providers and manufacturers comprise the majority of rural employment and have become the backbone of our nation's rural economy.

Most SBDCs in 2007 received less federal funding than they received in 2002. SBDCs in low population states such as New Hampshire, Vermont, Delaware, Rhode Island, Wyoming, Alaska, Montana, North Dakota, South Dakota, Idaho and Maine, primarily rural states, have seen no increase in funding since1998. Inflation alone since 1998 has reduced service capacity in those low population states by over 25%. These individual state SBDC programs, which under the President's budget would only get $500,000 for FY2008, (the same as they received in 1988) would need a grant of over $633,000 in FY 2008 simply to have the same purchasing power as they did in 1998.

In FY 2005 and 2006 the average hours of consulting time per client declined. This is an ominous piece of data. SBDC professional consultants simply lack the time necessary to provide many clients the amount of consulting and research and analysis time they truly need. As a result of declining real financial resources, most SBDCs nationwide have in recent years been begun closing rural centers and letting go experienced and capable professional consultants. The greatest impact of these layoffs is felt in the nation's rural areas. Necessary consolidation due to declining resources has resulted in centralizing service centers in regional population centers. In Minnesota, experience has taught us that rural small business entrepreneurs are less likely to travel to these population centers to take advantage of services.

Most SBDC hosts are eligible for USDA Rural Business Development Grants (RBDG) and some like the Louisiana SBDC have been successful in competing for these USDA RDBG grants. This has allowed those successful recipients to retain SBDC service centers in some rural communities. These grants, however, are awarded at local discretion and have not been available to all SBDCs of need in rural communities. Quite frankly, most SBDCs do not care where the resources come from, i.e. SBA, USDA, the Department of Labor, HUD Community Development Block Grants, etc. SBDCs simply want to try and stop, and hopefully reverse, the seemingly inexorable decline in SBDC service capacity to serve rural communities which has occurred due to stagnant or declining funding over the past decade.

With that said, let me say that ASBDC and its members are extremely grateful to the House Small Business Committee for its recent approval of legislation to increase the authorized funding level for the SBDC national program to $145 million in FY 2009. We are also grateful to Chairwoman Velazquez for her budget views and estimates letter urging the House Budget Committee to approve $110 million for the SBDC national program for FY 2008. We believe that letter was instrumental in the Congressional Budget Resolution providing for $110 million for the SBDC national program. The full House approved an appropriation for the SBDC national program of $100 million for FY 2008. If that figure could in fact be realized, state SBDC networks could enhance their service capacity and better address the needs of small business owners and aspiring entrepreneurs throughout rural America.

USDA Rural Development's mission is to increase economic opportunity and improve the quality of life for rural residents. Certainly the services provided by SBDCs in rural areas enhance economic opportunity and the quality of life for SBDC clients and indirectly for the employees of clients, their families as well as others. With similar objectives, SBDCs and USDA's Rural Development Office should be increasingly exploring ways to partner together in the interest of our nation's rural economy and rural residents.

There have been concerted efforts by many groups to enhance the level of funds authorized in the 2007 Farm Bill for rural economic development. ASBDC believes those efforts make good economic sense. And rural economic development resources in any farm bill should include funds for small business management and technical assistance for owners of rural small businesses. ASBDC naturally believes that since its members are the federal government's most experienced, successful and accountable provider of small business management and technical assistance that they should be viewed as logical recipient for such funds. Any farm bill should make clear that SBDCs are fully eligible applicants for any entrepreneurial and small business management and technical assistance authorized by the 2007 farm bill.

Agriculture under Secretary for Rural Development Thomas Dorr, when testifying before the House Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture earlier this year, stated, "Our mission is to empower local communities, encourage entrepreneurship, and use Federal incentives to leverage private investment and ownership." I know of no entity better equipped to assist USDA's Rural Development Office in meeting certain aspects of that stated mission than America's Small Business Development Center network. But we cannot do so without resources to provide for adequate capacity. We hope that, when this Congress completes its FY 2008 appropriations process, the FY 2008 SBDC appropriation approved by the full House earlier this year in HR 2829 will, in fact, be the level of funding made available for the SBDC national program. Furthermore, we hope that when the Farm Bill is completed that it identifies SBDCs and SBDC hosts organizations as qualified applicants for rural development funding and that USDA considers the national SBDC as a key partner in its rural development strategies. Such actions would go along way toward demonstrating Congress' commitment to strengthening our second economy that employs over half of our nation's private sector workers and creates over two-thirds of our nation's net new jobs every year.

I thank the subcommittee for the opportunity and privilege of testifying before you. I would be pleased to try and answer any questions the subcommittee might have.

Testimony of Leon Milobar
District Director, Nebraska
U.S. Small Business Administrator
Before the House Small Business Committee,
Subcommittee on Rural and Urban Entrepreneurship
November 14, 2007

Good morning Chairman Shuler, Ranking member Fortenberry and members of the Committee. Thank you for the opportunity to speak with you today regarding the U.S. Small Business Administration's (SBA) programs that support rural small business owners and entrepreneurs. Small businesses account for two-thirds of all rural jobs and comprise more than 90 percent of all rural establishments. Under Administrator Preston's leadership, the Agency has a renewed focus on ensuring that its products and services are accessible to entrepreneurs in the nation's most underserved markets, including the rural small businesses.

I am Leon Milobar, and I am the District Director for the U.S. Small Business Administration (SBA) in Nebraska. Prior to serving as the District Director in Nebraska, I served as District Director in Portland, Oregon and prior to that I served as Associate State Director for the Nebraska Business Development Center (NBDC)

As Association State Director for NBDC, I was responsible for the management and technical assistance that small businesses received throughout Nebraska. This included SBA's Small Business Development Center (SBDC) and the manufacturing subcontract extension program through the Nebraska Department of Economic Development and the US Commerce Department and the Procurement Technical Assistance Center.

In 2005, while serving as District Director in Oregon, the local SBA office met with the United States Department of Agriculture (USDA) Rural Development and the Oregon Economic and Community Development Department in a collaborative effort to provide lender training on various federal and state government loan guarantee programs. From 2005 through 2006, approximately twelve training sessions were held throughout Oregon and the sessions were attended by over 400 bankers.

This collaborative effort resulted in additional loan activity and exposure for the agencies involved within the rural community. The Portland District office realized a 30% increase in loan volume over the past fiscal year, an increase we believe was our collaboration with USDA contributed to.

During my brief time in the Nebraska District office, we have implemented the same basic initiative. I personally visited with the state economic development department and the USDA Rural Development shortly after my arrival in Nebraska. In meeting with USDA Rural Development, I produced the materials and the initiative design that was used in Oregon to spur interest in a USDA and SBA collaboration in

Nebraska. The interest level from USDA was considerable, and we began work on the program roll out that day.

Currently, the initiative is only in a test phase in Nebraska, but we have had very good attendance by bank loan officers in the state. There have been two programs which have been held, one in Omaha and the other in Kearny, Nebraska. The attendance from the two events was impressive. Approximately 90 bankers and economic development professionals attended. This joint training program serves as an important tool because it is used to educate and reacquaint loan officers with government guarantee loan programs. There is a significant amount of loan officer turnover and many of the loan programs change, so this lender training is crucial for all parties involved.

At the end of the event, we discuss the technical resources that are available throughout the state for the benefit of small businesses. These include all of the business assistance programs that SBA provides as well as additional resources that loan officers can use in putting a loan package together.

In Nebraska, this includes 7 SCORE Chapters, 7 Small Business Development Sub-centers, and a Women's Business Center with 7 regional locations, which are supported by funding through SBA. SBA has good reach in terms of technical assistance with Small Business Development Centers, SCORE, and Women's Business Centers throughout the state. In Nebraska, SBA has a fairly large footprint in terms of lenders. We have agreements with approximately 350 banks throughout the state.

SBA is fully committed to serving our nation's underserved markets, including our rural community. In September of this year, SBA announced a new loan processing initiative designed to spur economic growth in rural communities by encouraging rural lender, including community banks and credit unions, to finance small businesses and entrepreneurs with SBA resources. "Rural Lender Advantage" is part of a broader SBA goal to increase access to capital in regions that face unique challenges due to factors including population loss or high employment rates. This streamlined process is part of SBA's 7(a) loan program, and encourages smaller, rural lenders to partner with SBA by requiring less paperwork and offering services online.

Key features of Rural Lender Advantage include:

- A shorter, simplified application for loans of $350,000 or less.
- An application that may be completed and submitted online.
- An estimated, expedited loan processing times of only 3-5 days for routine loans.
- Only limited key financial documentation required.
- SBA's guaranty of 85% if the loan is $150,000 or less; and 75% if the loan is more.
- A new, user friendly 7(a) loan portal designed to meet the needs of small/rural lenders for SBA loans of $350,000 or less.
- A simplified SBA loan questionnaire to help small or occasional lenders understand eligibility criteria.

- Specialized assistance for rural lenders on complex eligibility issues.

This new process is intended to increase SBA's market penetration in rural areas. It is being tested in Colorado, Montana, South Dakota, North Dakota, Utah and Wyoming. The agency expects there will be 3,000 to 4,000 loans made in the first year of implementation. We are excited about the introduction of this new service and anticipate great results.

America's rural community is essential to the nation's economy and SBA is committed to encouraging entrepreneurship and generating job growth in rural regions. This concludes my testimony, and I look forward to answering any questions you may have.