

October 26, 2005

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

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

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

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

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

As the House and Senate prepare to go to conference on the Science, State, Justice and Commerce (SSJC) and Commerce, Justice, and Science (CJS) appropriations bills, we wanted to bring to your attention an issue that is of critical importance to small businesses and small business lenders, and to request your assistance in ensuring that this nation's entrepreneurs have access to affordable capital through an adequately funded small business lending program. The Small Business Administration 7(a) program supports nearly one-third of all long-term capital financing for our nations' small businesses. Notably, both the House and Senate have included funds in their FY 2006 appropriations bills for the 7(a) program. As the House and Senate are preparing to go to conference on SSJC-CJS, we are writing to express our strong support for the modest funding of this vital program.

The fees associated with the 7(a) program are becoming prohibitively expensive for both small business borrowers and lenders. For FY 2005, the full cost of the program was shifted to small businesses and their lenders through a series of fee increases. As a result, small businesses are being forced to pay substantial upfront fees to use the program – more than \$2,000 for a small loan and nearly \$16,000 for a mid-size loan. For smaller loans of less than \$150,000, fees are doubled, which translates into nearly \$1,500 more in upfront closing costs for entrepreneurs. For a loan of \$700,000, this increase would raise the fees by approximately \$3,000 and for larger loans this fee can approach \$50,000.

These fee increases are making it more expensive for lenders to lend and businesses to borrow. As a result, many small businesses – particularly those in the areas affected by Hurricane Katrina – may be unable to access the capital they need to hire new employees or expand their operations. Most recently, actions have been taken that have made the program more costly and less accessible to small businesses. On October 1st, a third fee increase was levied on the program's participants – making 7(a) loans more costly than ever. And, in an attempt to cut the program's costs, the SBA eliminated the

popular 7(a) LowDoc program, which has been a key initiative used by community banks and rural small businesses.

We are also concerned about the impact of Gulf Coast hurricanes on the program, as SBA's loan portfolio contains more than \$2 billion in loans to businesses in hurricane-affected areas. There is the potential that a sizeable portion of these loans will default, leading to increased program costs. Without a 7(a) appropriation, the only possibility to cover these increased program costs will be to raise fees on small businesses and lenders, place a cap on the program or on loan size, or, in the worst case scenario, shutdown the program altogether. These undesirable measures would be extremely counterproductive at a time when adequate small business lending will be more important than ever in recovery and rebuilding post-Katrina.

We urge you to support our nation's small businesses. Securing funding for this important program is a top priority for the broad small business and lending community and we are pleased that both the House and Senate appropriations bills contain needed funding for the 7(a) program. We urge the SSJC-CJS conferees to work to ensure that the 7(a) program is provided with an appropriation of \$79.132 million for FY 2006 and that such funding be used to reduce the fees for business borrowers and their lenders.

We recognize your commitment to our nation's small businesses and truly appreciate your efforts in supporting the SBA's 7(a) loan program. In order to ensure the vibrancy of our local communities, we want to stress our strong support for funding for the 7(a) program. We are eager to work with you to accomplish this goal. By giving entrepreneurs access to affordable capital, we can ensure that they can continue to serve as the catalyst for our nation's economy.

Sincerely,

**National Small Business Association
 Independent Community Bankers of America
 National Black Chamber of Commerce
 National Association of Convenience Stores
 Credit Union National Association
 Associated Equipment Distributors
 Aeronautical Repair Station Association
 American Society of Travel Agents
 National Bankers Association
 Small Business Majority
 National Procurement Council
 United Motorcoach Association
 American Bankers Association
 U.S. Women's Chamber of Commerce
 American Bus Association
 National Ready Mixed Concrete Association
 National Propane Gas Association
 Women Impacting Public Policy
 American Subcontractors Association
 American Dental Association
 American Hotel and Lodging Association**