- A fully funded SBA 7(a) loan program is key to the continued success of America's small businesses, which, as innovators, employers, and contributors to the tax base, are key to a robust American economy.

- Job creation is one of the most important facets of America's small business sector. For instance, seven of the ten industries providing the most new jobs in 1998 were dominated by small firms[1], and from 1990 – 1995, over ¾ of all net new jobs were created by small businesses,[2] a trend that remains the same today. Small businesses also provide an important counter-function to large businesses, which tend to downsize rather than create new jobs.

- Tax revenue is another important economical contribution of small businesses. For example, in 1998, 24.8 million business tax returns were filed, more than 99% of them by small businesses.[3]

- Despite the crucial role that small businesses play in our economy, they remain underserved by America's financial institutions in the area where their need is greatest—affordable, long-term financing. The purpose of the SBA's flagship 7(a) loan program is to meet creditworthy small firms at the point of this need, offering them the opportunity to succeed, and our economy the opportunity to reap the benefits of their success.

- While large businesses have access to conventional credit, the stock market, and even billions in government grants, small businesses struggle to obtain long-term financing on reasonable terms. The 7(a) loan program bridges this capital gap, providing an incentive for lenders to meet this need by reducing their risk through government guarantees for significant portions of 7(a) loans.

- It is important to note that the 7(a) loan program does this at minimal cost to the American taxpayer. In fact, program appropriations have historically been leveraged almost 100 to 1 by the private sector, meaning that for every dollar of taxpayer-funded appropriations, $100 can be lent to American small businesses. The 7(a) program is clearly the government's most cost-effective economic development tool. And if the annual tax revenues of companies that have benefited from 7(a) loans are taken into consideration, the program is much more than self-sustaining.

- **In FY 2005, the program will be an even better bargain for the government. At next year's projected subsidy rate of .47, $100 will be lent for every $.47 of appropriations. The Office of Advocacy has long held that a job is created for every $33,000 lent via the 7(a) program. Simple math tells us, then, that for every $155 spent by the U.S. government on the 7(a) program, a new job is added to the economy. If appropriations are straight-lined from FY 2004 at $79 million, that means approximately half a million new jobs in 2005—half a million jobs for only**

[1] Small Business Lending in the U.S., 1999
[2] Small Business Administration Office of Advocacy
[3] The Facts About Small Businesses

$79 million. The question, then, is why has the President refused to request funding for the 7(a) program?

- Banks hesitate to provide conventional long-term loans to small businesses because of strict internal underwriting standards toward this sector of the economy, and pressure from their regulators. But these are exactly the kinds of loans small business people need. Longer maturities mean lower monthly payments, which are vital to the health of small businesses because they allow the businesses to repay the loans from their cash flow.

- SBA 7(a) loans have significantly longer maturities than conventional small business loans. The average original maturity of SBA 7(a) loans, according to the Office of Management and Budget (OMB), is 14 years. By comparison, only 16% of conventional small business loans have maturities in excess of one year, and of those loans, the average maturity is less than 4 years.

- It has been estimated that the 7(a) loan program provides nearly 30% of all long-term loans (with over three-year maturities) to small businesses.[4]

- Without a fully funded and affordable SBA 7(a) loan program, far fewer long-term loans—the lifeblood of small businesses—would be available. This would not only be bad news for small businesses, but for the U.S. economy as a whole.

[4] GAO Report to the Senate Small Business Committee, September 1996