



December 22, 2008

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, DC 20515

Dear Madam Speaker:

As the 111th Congress and the incoming administration of President-elect Barack Obama assemble a second stimulus package aimed at reinvigorating the U.S. economy, the National Small Business Association (NSBA) urges you to consider the importance of America's small-business community and its historical role in lifting the country out of economic downturns. Reaching 150,000 small-business owners across the nation, NSBA is the country's oldest small-business advocacy organization.

Although limited access to capital is a perennial concern for America's small-business owners, in the past, this complaint largely centered on the amount of time and effort necessary to find and secure it or the high cost one was forced to pay for it. The problem now is that capital is simply unattainable – unless one is seeking a commercial real-estate loan or has a credit score of more than 800. According to the most recent quarterly Senior Loan Officer Opinion Survey of the Federal Reserve Board, nearly 74 percent of domestic banks reported tightening their standards for commercial loans to small companies. The number of 7(a) loans plummeted 30 percent in FY 2008, and the total dollar amount of these loans dropped by 11 percent. The 504 loan program also experienced steep declines.

The recent lockdown of the secondary market for U.S. Small Business Administration (SBA) loans has exacerbated the situation. The ensuing lack of liquidity has crippled the ability of lenders to make SBA-guaranteed loans. In response to this situation, SBA announced in early November two useful changes to its lending programs. While helpful, these programmatic changes were insufficient to remedy the secondary market stasis, so in late November the U.S. Department of Treasury (Treasury) announced that it was creating a new program, known as Term Asset-Backed Securities Loan Facility (TALF). Unfortunately, any effects of this program will not be felt until, at the earliest, February—and, regardless of timing, it is not a cure-all.

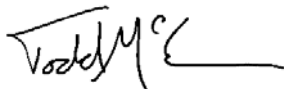
Employing more than half of the nation's private sector workforce and creating 93.5 percent of all net new jobs since 1989, small businesses truly are the backbone of the U.S. economy. Yet, small business has been an afterthought—at best—as the government has sought to lift the country out of its recession. This must change. The first half of the initial, \$700 billion rescue package has not reached small business, and the potential benefit to small business from the recent auto-company bailout merely has been considered a side benefit. It is time to focus on what the federal government can do directly and specifically to help stimulate the 27 million small businesses that comprise the small-business sector of our economy, along with their 70 million employees and family members. Throwing more and more money at big businesses, as they shed more and more jobs, will not cure our ailing economy—but fostering a thriving small-business community can.

The small-business members of NSBA firmly believe that the inclusion of the following measures in the next stimulus package will create an environment in which small businesses can again thrive and prosper:

- Eliminate the borrower and lender fees associated with the SBA's 7(a) and 504 loan programs;
- Increase the percentage portion of 7(a) loans guaranteed by the government;
- Increase or remove the interest-rate cap SBA imposes on lenders;
- Temporarily alter SBA's internal policy relating to the circumstances under which the SBA will allow existing 504 borrowers to either refinance their un-guaranteed first mortgages or obtain another bank loan that SBA would agree to subordinate to the existing 504 second mortgage;
- Temporarily expand SBA's disaster lending program to include direct SBA loans to small businesses suffering substantial economic injury due to the credit crunch, with the caveat that these loans must be based on the underwriting principles of the SBA's prior direct lending program and not those used for its current disaster lending program, and that adequate resources are available to permit SBA to "ramp-up" for this new responsibility;
- Mandate that Treasury require banks that receive any future TARP funding dedicate at least 25 percent of those funds to expand their small-business lending;
- Utilize \$3 billion of the remaining half of the \$700 billion in TARP funding to directly purchase SBA 7(a) pooled securities, which already are guaranteed by the federal government, to help unfreeze the secondary market for SBA loans;
- Create a workable term sheet for the TARP and Capital Purchase Program (CPP) for the more than 2,500 Subchapter S banks that represent a third of the banking industry and provide an instrumental source of small-business capital;
- Mandate that 23 percent of any infrastructure stimulus funds—whether spent at the federal, state, or local level—be contracted out to small businesses and repeal the 3-percent withholding requirement; and
- Abolish the self-employed tax on health insurance, making the tax code fairer and granting more than 21 million entrepreneurs greater access to affordable health insurance;
- Extend the net operating loss (NOL) carry back rules from two to five years for losses suffered in 2007, 2008, and 2009; and
- Reauthorize the Small Business Innovation Research program and provide an additional \$2.3 billion for small-business research and development and commercialization funding in FY 2009;

If Congress is serious about stimulating the U.S. economy, it must focus on the true center of American job creation: small business. These measures would cost a fraction of the amount of previous stimulus packages, yet they will have a greater and more immediate payback in job creation and American competitiveness. When crafting the next stimulus package, NSBA urges you to Think Big, Start Small.

Sincerely,



Todd McCracken
President