

Small biz programs on chopping block in 2012 budget

By [Catherine Clifford](#), staff reporter February 15, 2011: 9:26 AM ET

NEW YORK (CNMoney) -- Like the rest of the federal government, the Small Business Administration is going to get the squeeze in 2012, according to President Obama's budget proposal released Monday.

The SBA -- and, most critically, the lending programs it backs -- got some pretty hefty government subsidies through the Great Recession as the White House tried desperately to get capital flowing to small businesses. That stimulus cash vanishes in the government's 2012 fiscal year, which begins in October 2011.

"We have to tighten our belt, too, and we have to make tough choices," SBA Administrator Karen Mills said in a conference call with reporters.

In the 2010 fiscal year, the SBA received a whopping \$963 million in supplemental appropriations, more than doubling its \$824 million core budget for the year. Most of that cash went toward a very popular series of deal sweeteners that helped entice banks to step up their government-backed small business lending.

The deal sweeteners worked. In a time when [lending to small businesses overall contracted by \\$43 billion](#), SBA-backed lending rose in the 2010 fiscal year to \$12.6 billion, after plunging 27% in 2009 to \$9.3 billion.

But as the economy moves toward recovery and spending has become a battleground in Washington, those stimulus efforts were discontinued on Dec. 31.

"We actually saw a big rush right at the end of the year," Mills said, as borrowers raced to get a loan locked with lower borrowing costs and higher government guarantees against default.

Now, borrowers and lenders are readjusting to the SBA's traditional loan terms. "We expected to see a lull, but we have started to see the volume come back," Mills said.

The guaranteed loan program has grown more costly as default rates jumped, especially on loans made between 2004 and 2008. Therefore, the SBA requested that it be given the authority to adjust the program's fees as it sees fit. The idea is to get the loan guarantee program as close to "self-sustaining" as possible, the budget proposal said. The adjustments in fees would become effective in 2013.

President Obama's 2012 budget proposals calls for SBA funding of \$985 million, down slightly from the \$993 million proposed for fiscal year 2011. The 2012 proposal is an increase from the \$824 million core budget the SBA had in 2010, but a sharp 45% drop from the \$1.8 billion the SBA actually got in 2010, thanks to its supplemental allocations.

The agency will have to cut back to meet those targets. Funding for SBA salaries and expenses dropped by \$7 million compared to 2010, and the agency will have to trim \$5 million from its budget for managing its main loan programs.

What is getting whacked: The SBA warned that funding for its nationwide network of Small Business Development Centers will have to decrease by \$10 million. Small Business Development Centers are mentoring centers run by the SBA in a partnership with colleges and universities throughout the country.

The SBA plans to come up with another \$8 million in savings by reducing the core staff for its disaster loan program. The reserve staff that is "on-call" for emergencies will not be reduced.

Like other government agencies, the SBA has the unenviable task of trying to plan its 2012 spending while still battling uncertainly about its budget for the current year. Congress hasn't yet approved President Obama's proposed budget for the 2011 fiscal year -- which began five months ago. The government has been keeping the lights on with a so-called "continuing resolution." That's a month-by-month stopgap funding measure that keeps the agencies funded at their 2010 budget levels. ■