What GAO Found

As the 7(a) program’s underlying statutes and legislative history suggest, the loan program is intended to help small businesses obtain credit. The program reflects this intent, in part, by guaranteeing a portion of each loan, alleviating some of the lender’s risk. However, determining the program’s success is difficult, as the performance measures show only outputs—the number of loans provided—and not outcomes, or the fate of the businesses borrowing with the guarantee. The agency is currently undertaking efforts to develop additional, outcome-based performance measures for the 7(a) program, but is not certain when any outcome-based measures may be introduced or what they may capture.

Limited evidence from economic studies suggests that some small businesses may face constraints in accessing credit in the conventional lending market, but this evidence—which dates from the early 1970s through the early 1990s—does not account for recent developments that have occurred in the small business lending market. Several studies concluded, for example, that credit rationing—that is, when lenders do not provide loans to all creditworthy borrowers—was more likely to affect small businesses in part because these firms might not have sufficient information for lenders to assess their risk. However, the studies did not address recent significant changes to the small business lending market, such as the use of credit scoring, which may reduce the extent to which credit rationing occurs.

GAO found that 7(a) loans went to certain segments of the small business lending market in higher proportions than conventional loans. A higher percentage of 7(a) loans went to minority-owned and start-up businesses compared with conventional loans from 2001 to 2004. More similar percentages of loans with and without SBA guarantees went to small businesses owned by women and those located in economically distressed neighborhoods. The characteristics of 7(a) and market loans differed in several key respects, however. For example, loans guaranteed by the 7(a) program were more likely to be larger and have variable interest rates, longer maturities, and higher interest rates.

SBA’s recent reestimates of the credit subsidy costs for 7(a) loans made during fiscal years 1992 through 2004 show that the long-term costs of these loans have generally been lower than the initial estimates. Since fiscal year 2005, initial estimates have shown a “zero credit subsidy.” But the ultimate credit subsidy cost for any cohort of loans made will not be known until no loans are left outstanding. Reestimated costs may change because of uncertainties in forecasting and factors such as the number of loan defaults. Since 2002, the agency has employed an econometric model that incorporates historical data and other economic assumptions for its credit subsidy cost estimates and reestimates instead of relying primarily on predictions based on historical average loan performance.