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Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515–6315

June 2, 2009

The Honorable Karen Mills
Administrator
U. S. Small Business Administration
409 Third Street, S.W.
8th Floor
Washington, D.C. 20416

Dear Administrator Mills:

As the U.S. auto industry struggles to regain profitability, the adverse effect on our nation's entrepreneurs will likely be profound. Recently, the Small Business Administration (SBA) announced the creation of a new Dealer Floor Plan (DFP) financing initiative to offer government guaranteed loans to finance inventory for auto, recreational vehicle, boat and other dealerships. While the Committee can certainly appreciate the SBA's interest in assisting car dealers, we question whether this policy is appropriate considering the pending corporate reorganizations that General Motors and Chrysler will undergo in bankruptcy as well as the limited resources SBA has available.

In efforts to assist small firms, the Committee convened a hearing on this very topic and passed legislation to aid small manufacturers in retooling and remarketing their products in emerging industries. The course of action chosen by the agency, however, seems to have produced an initiative with a vague purpose and uncertain benefits. This is especially troubling since the SBA has yet to fully implement P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA), which passed Congress and was signed by the President in February.

The SBA has long prohibited the use of its financing programs for the purpose of wholesale lending, and for good reason. Because lenders are limited in their ability to exercise full control over the financed items, the exposure to loss in floor plan loans is greater than in other types of financing. Additionally, with manufacturers cutting product lines and faced with a glut of inventory, DFP collateral will depreciate rapidly, eroding dealer capital relative to their debt. This puts taxpayers' dollars at significant risk. While clearly there is a need to provide this industry with transitional assistance, doing so by focusing on inherently risky financial arrangements seems questionable. The potentially negative impacts of this policy change are likely to extend well beyond the auto industry.

Some analysts estimate that as much as half of all dealers will be eliminated in the bankruptcy reorganization of General Motors and Chrysler. Those that remain will face a long period of slow sales, significantly smaller profit margins, and uncertain revenue forecasts. Under these circumstances, there is a significantly higher risk of loan defaults, which will lead to increases in the 7(a) subsidy and higher loan cost for future small business owners wishing to use the loan program.

Given the complex nature of this new program, the agency has clearly dedicated a significant amount of time and resources on the proposal's development. At the same time, however, over 50 percent of the Agency's responsibilities on ARRA remain unimplemented. These provisions were due to be completed over 100 days ago. While the recent financing announcement will impact a very limited group, had the agency used those resources to finish work on implementing ARRA, thousands of small businesses that can no longer wait for help would have seen assistance. These incomplete projects are in addition to the unfinished work related to small business energy provisions in P.L. 110-140, the Energy Independence and Security Act of 2007, and the disaster assistance provisions in P.L. 110-234, the Food and Energy Security Act of 2007.

While the economy has begun to show signs of recovery, many small firms are still struggling, making the role of the SBA more important today than ever before. It is my hope that when assessing future initiatives, the agency will focus on and rededicate itself to not only finishing the work it began under ARRA, but also on the other proposals that Congress passed and the President signed to support this nation's entrepreneurs.

Thank you for considering my views on these important issues. If you have any further questions or comments on this matter, please do not hesitate to contact me or Andy Jiminez of the Committee staff at (202) 225-4038.

Sincerely,

Nydia M. Velázquez

Nydia M. Velázquez
Chairwoman