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In This Issue

House Committee Hears about
Regulatory Review Panels . . . 1

Regulatory Agencies

A Major Court Victory for
Small Business 3

FCC Urged to Revisit Access
Charge Reform 4

MCI Reduces Fees It Imposed
on Small Businesses 5

Regulatory Boards to Hold
Meetings in Utah,
Oklahoma 5

Special Feature

A Special Tax-Time Look
at IRS Reform 6

Research and Publications

Is Your Bank “Small Business
Friendly”? 8

Technology Talk

ACE-Net Operators Are Ready
to Serve You 10

House Committee Hears about Regulatory Review Panels

Small business advocacy review panels — established by the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA) — have promise for making federal regulations more small business friendly, according to those testifying on March 18, 1998, before two subcommittees of the U.S. House of Representatives Committee on Small Business. In a hearing led by Reps. Roscoe G. Bartlett (R-Md.) and Sue Kelly (R-N.Y.), small businesses and government officials confirmed the value of the panels — a process that requires the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA) to seek small business input early in the rulemaking process.

“We believe that the panel process is important,” Rep. Bartlett

said. “We will hold as many hearings as may be necessary to see that EPA and OSHA comply both with the letter and spirit of the law — and that small businesses are fairly treated.”

The Small Business Committee’s Subcommittee on Government Programs and Oversight and the Subcommittee on Regulatory Reform and Paperwork Reduction met to assess the effectiveness of the new process. Under SBREFA, OSHA and the EPA must convene panels to review regulatory proposals that may have a significant effect on small entities. The panels, made up of representatives of the regulating agency, the SBA’s Office of Advocacy, and the Office of Management and Budget, collect recommendations from small businesses about the potential impact of

Continued on page 2

Fishing Regulation Sunk



Commercial shark fishing fleets, like this one in Madeira Beach, Fla., successfully challenged a rule issued by the National Marine Fisheries Administration that dramatically reduced their quotas and bag limits. For the full story, turn to page 3. (Photo courtesy of the Southern Off-shore Fishing Association.)

Review Panels, from page 1

the draft rules.

"We must ensure that small business is considered in every agency action if we expect our economy to continue growing. We can and must have a cleaner environment and a safer workplace, and we must accomplish agency objectives without unduly burdening small business," said Chief Counsel for Advocacy Jere W. Glover.

Since the law's enactment, the EPA has convened five panels and OSHA has convened one. The EPA's first panel, for example, concerned emissions controls for manufacturers of diesel engines for off-road vehicles such as forklifts and farm equipment. The panel made five recommendations for regulatory relief based on 10 options proposed by the small entities to the EPA administrator. The agency found it could adopt the five recommendations, save money, and still achieve virtually the same amount of emissions reductions. All five suggestions were incorporated in the proposed rule, published in the *Federal Register* on Sept. 24, 1997.

The OSHA panel was conducted for a potentially burdensome rule to limit occupational exposure to tuberculosis. Martha Hickam, director of government relations for the American Health Care Association (AHCA), said of the panel process, "The SBA clearly, concisely, and accurately portrayed many of AHCA's issues during the review panel process in its recommendations to OSHA." While concerns remained about the rulemaking, the process was a first step.

Chief Counsel Glover noted that the ultimate question to ask when judging the success of the panels and the agencies is whether the panel process results in the agency making changes to the rule that mitigate impacts on small entities without compromising the rule's objective. "Based on our experience thus far, review panels seem to have

enhanced the regulatory decision-making process," he said.

A report by the U.S. General Accounting Office (GAO), *Regulatory Reform: Implementation of the Small Business Advocacy Review Panel Requirements*, found that the agencies had generally complied with the SBREFA requirement. The report noted, however, the Office of Advocacy's concern that the EPA had failed to convene panels on at least two important rulemakings since SBREFA went into effect — the national ambient air quality standards for ozone and for particulate matter. The GAO also noted that the panels convened so far have differed in some respects because the process was new and evolving, and it would improve with experience.

"Full participation by all involved parties will contribute to the strengthening of this relationship between our regulatory agencies and our small businesses," said Rep. Juanita Millender-McDonald (D-Calif.), minority ranking member of the House Subcommittee on Regulatory Reform and Paperwork Reduction.

For More Information

Copies of Chief Counsel Glover's testimony on regulatory issues, as well as information about the Office of Advocacy's research on regulatory impacts, may be accessed on the Internet at <http://www.sba.gov/ADVO/>.

Copies of the GAO report mentioned in this article, *Regulatory Reform: Implementation of the Small Business Advocacy Review Panel Requirements*, document no. GAO/GGD-98-36, may be obtained by calling GAO at (202) 512-6000 or viewed on their Web site at <http://www.gao.gov>.

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Challenging Regulation, Fishing Industry Wins a Major Court Victory

Small businesses in the fishing industry won a major court victory over the U.S. Department of Commerce when a federal district court held that the agency failed to comply with the Regulatory Flexibility Act (RFA). The court's summary judgment for the plaintiff, the Southern Offshore Fishing Association, has significant implications for all small businesses, strengthening their position in current and future judicial challenges to federal agencies under the RFA.

On Feb. 24, 1998, the U.S. District Court in Tampa, Fla., ruled in *Southern Offshore Fishing Association et al. v. William M. Daley* that the National Marine Fisheries Service (NMFS), an agency within the U.S. Department of Commerce, must prepare a proper regulatory flexibility analysis to determine the real economic impact on small businesses of its rule concerning new quotas for commercial shark fishing. Published in the *Federal Register* on April 7, 1997, the rule reduces quotas and bag limits by as much as 50 percent for Atlantic shark fisheries. The court criticized the analysis that NMFS submitted, stating that "The record fails to contain an adequate explanation of the agency's calculations, if any, leaving no possibility to gauge its rationality, which is manifestly suspect."

This harsh criticism reflects a long-felt sentiment of small businesses that federal agencies often provide little or no analyses concerning the impact of their rules on small companies despite the mandate of the RFA. And until the passage of the Small Business Regulatory Fairness Enforcement Act of 1996 (SBREFA), small businesses had few options for dealing

A federal court's judgment in a case affecting Atlantic fishing fleets has significant implications for all small businesses.

with the problem. SBREFA amends the RFA, allowing judicial review of agencies' RFA compliance. Before it was signed into law by President Clinton, agencies commonly provided boilerplate language that "certified" a rule did not have a significant impact on a substantial number of small entities.

Submitting its analysis only when the final rule was published, the NMFS opened itself up to serious reprimand. The court rejected the validity of the analysis, asserting that the agency did not develop sufficient analysis early in the process and give serious consideration to public comments. "NMFS chose an insular approach [in preparing an analysis] designed to block further investigation and public scrutiny."

In a letter submitted to the NMFS on Feb. 6, 1997, the Office of Advocacy raised major concerns about the rule when it was first proposed. Advocacy emphasized that 134 shark vessels expected to lose between 20 and 50 percent of their income as a result of the rule. The court relied upon the letter in its remonstrance. "The RFA watchdog [the Office of Advocacy] also strongly criticized NMFS's 'no significant impact' certification, stating that it was 'perplexed' and 'bewildered' by the 'illogical' certification." The NMFS also proposed

that the rule would not have a significant impact because the fisheries could convert to other fishing operations. The court again pointed to Advocacy's criticism of this rationale as being "costly and probably not feasible."

According to David E. Frulla, an attorney with the plaintiff's law firm, Brand, Lowell, and Ryan, "SBREFA wisely enlisted the courts and Congress in what can be an uphill battle to ensure that a federal agency carefully assesses the potential consequences of its actions." Referring to the Office of Advocacy's intervention, Frulla noted that "the Office of Advocacy's efforts are not only making a difference in our court case, but have started restoring fishermen's hope that their relationship with the federal government need not always be adversarial."

This case is one of many currently pending in federal courts, and case law is developing that will have long-term ramifications for all small businesses challenging federal agencies' compliance with the RFA. The need for small business impact analyses of new rules, full public review of agencies' underlying data and conclusions, and attention to the Office of Advocacy's opinions are melding a message that will reverberate throughout federal agencies: the RFA is for real.

FCC Urged to Revisit Access Charge Reform

Even a high-powered microscope would not have helped most small business owners find savings in their January telephone bills. In fact, large increases in access charges on small businesses' long distance telephone bills and no evident reductions in long distance rates despite carrier competition caused the Office of Advocacy to again seek relief for small businesses from the Federal Communications Commission (FCC).

In a Feb. 17, 1998, filing to the FCC, Advocacy urged the FCC to investigate excessive charges in small businesses' telephone bills, redo its analysis of economic impact of the new access charge rules on small companies, and initiate a new rulemaking to revisit the access charge reform established by the FCC on May 16, 1997.

Chief Counsel for Advocacy Jere W. Glover said, "The majority of the 23 million businesses in this country are small businesses, and it is not unreasonable to assume that many have started the new year with a net increase in their telephone bills." The nation's largest interexchange carriers (IXC) — AT&T, MCI, and Sprint — have not only passed through the FCC-imposed Presubscriber Interexchange Carrier Charge (PICC) to their customers, resulting in as much as a 30-percent increase in telephone bills for small businesses, but also have assessed an additional universal service fund (USF) surcharge on all business customers. The PICC and USF surcharges went into effect on Jan. 1, 1998. (See related story on MCI's phone charges on page 5.)

The Office of Advocacy also shares the Rural Telephone Coalition's concerns that the USF surcharges, billed as "national" fees, are being assessed unlawfully on rural customers served by an interim universal plan in which no

Small businesses are paying a disproportionate share of access charges, resulting in enormous increases in their telephone bills.

change in rates nor additional federal charges have been imposed.

The letter concluded with recommendations that the FCC:

- Investigate the billing practices of the largest IXCs to determine whether rate reductions have indeed been passed through to all classes of end users commensurate with the per-minute access charge reductions made by the FCC.

- Determine whether the USF surcharge imposed on all business customers is appropriately assessed in light of the FCC's modified col-

lection schedule for the schools/libraries, rural health care providers, and high-cost/low-income universal service funds.

- Complete a proper regulatory flexibility analysis that complies with the Regulatory Flexibility Act, as amended by the Small Business Regulatory Enforcement Fairness Act (SBREFA), which requires the FCC to analyze the economic impact of its access charge rules on all affected small entities, including small business end users.

- Reconsider the disproportionate economic impact on small interexchange carriers of the FCC's elimination of the unitary rate structure and imposition of new tandem switching rates.

This was not the first time the FCC heard from the Office of Advocacy on this issue. In a Nov. 21, 1997, letter to the commission, Advocacy admonished the FCC for failing to address the significant economic impact on small business end users that the cumulative effect of the increases in the subscriber line charge and PICC would impose. Advocacy asserted that the FCC's rulemaking process violated the Regulatory Flexibility Act. "Advocacy has been concerned from the beginning about the significant economic impact that the commission's new access charge rules would have on small entities, including small interexchange carriers and, especially, small business end users," stated Chief Counsel Glover. "The economic success of small businesses is often measured day by day. They cannot afford to wait several years in the hopes that effective competition will lower access rates. They need relief immediately."

For More Information

The SBA's Office of Advocacy was established in 1976 by Congress to independently represent the views and interests of small businesses. It also partners with consumer groups and small business organizations to assess the impact that telecommunications regulations and legislation have on small businesses. For additional information on telecommunications issues, contact S. Jenell Trigg, assistant chief counsel for telecommunications, at (202) 205-6532, or by e-mail at s.trigg@sba.gov.

For access to small business comments on universal service or access charge reform, visit the Office of Advocacy's home page, located at <http://www.sba.gov/ADVO/>.

MCI Reduces Phone Charges It Imposed on Small-Business Customers

One of the nation's largest long-distance carriers, MCI Communications Corp., has agreed to change its billing policy of recovering the Presubscriber Interexchange Carrier Charge (PICC) mandated by the Federal Communications Commission (FCC) by assessing small business customers a fixed percentage of their monthly long distance bill. The news was especially welcomed by those hardest hit — small businesses with a single phone line and those with a high volume of calls.

"We are delighted that MCI has taken a first step in correcting the problem," stated Chief Counsel for Advocacy Jere W. Glover. "However, it is important that MCI adjust its customers' January 1998 bills in order to compensate in any way small businesses that were hard hit by the additional charges."

Since discovery of MCI's billing

scheme in early February, the Office of Advocacy has been working to resolve small business concerns about the costly MCI policy. In comments filed with the FCC on Feb 17, 1998, Advocacy supported a "petition for rulemaking" on access charge reform, which included Advocacy's request for the FCC to investigate the billing practices of the nation's largest interexchange carriers, including MCI (see accompanying story on page 4 of this issue).

After discussions with MCI staff, the FCC, and several consumer organizations, including members of the National Association of State Utility Consumer Advocates, the Office of Advocacy detailed its concerns about MCI's billing policy in a Feb. 18 letter to MCI President Timothy Price. The issues included:

- lack of adequate notice, if any, to MCI customers;

- discriminatory application and disproportionate economic burden on small business customers;
- unanticipated upward adjustments in future fees if MCI fails to collect the appropriate amount of PICC or, alternatively, if MCI collects too much and receives a windfall of revenue; and

- MCI's refusal to make billing adjustments to January bills, especially given its lack of notice to its small business customers.

In a Feb. 24, 1998, follow-up letter to MCI, Advocacy reiterated that the recent fee increases were imposed without adequate notice. Advocacy reminded the company that many small firms, especially emerging businesses, operate on zero or narrow profit margins and, therefore, are adversely affected by unplanned or unbudgeted increases in fixed costs.

Regulatory Fairness Boards Can Make Your Voice Heard

Small businesses are invited and encouraged to add their viewpoint to the national effort to reduce excessive regulatory enforcement. Peter Barca, the national ombudsman for the SBA's Regulatory Enforcement Fairness program, and members of the Regulatory Enforcement Fairness Boards will be conducting hearings across the country for the purpose of hearing directly from the small business community.

The ombudsman's position was created by the Small Business Regulatory Enforcement Fairness Act of 1996. The ombudsman is required to identify federal agencies' enforcement-related activities that are of concern to small businesses. Ombudsman Barca is assisted in this task by the Small

Upcoming Hearings

Regulatory Enforcement Fairness Board hearings scheduled for April and May 1998.

- **April 20, Salt Lake City, Utah:** Scheduled for 1:00 p.m. at the Salt Lake City Area Chamber of Commerce, 175 East 400 South, Suite 600.

- **May 1, Tulsa, Oklahoma:** Scheduled for 10:00 a.m. at Rogers University Auditorium, 700 North Greenwood Ave.

Business Regulatory Enforcement Fairness Boards — five-member boards composed of small business owners and operators who serve

one-year terms — established in each of the SBA's 10 regions to collect comments about federal regulatory enforcement actions.

To schedule testimony before the panel, contact the National Ombudsman's Office at (312) 353-0880. You may sign up at the hearing prior to the start of the presentations, but space and time are limited and it is recommended that you make a reservation to participate.

For hearing updates and information, call the office of the National Ombudsman on Regulatory Fairness at its toll-free number: 1-888-REGFAIR (1-888-734-3247), or visit its Web site at <http://www.sba.gov/regfair>.

Reform and Legislation Mark the 1998 Tax Season

It's April and most small business owners have either finished up their taxes or filed for extensions leaving time to wonder, "What more can they possibly do to me next year?" During the past few months, the Congress and the President have been working on numerous ways to restructure the Internal Revenue Service. If carried out, these changes may answer the question in a surprisingly positive manner by benefiting small business. At the same time, another question that's raised is, "Should we start all over — scrap the entire tax code as we know it and replace it with some simpler and fairer system?"

Changes and Complexity

The Taxpayer's Relief Act of 1997 brought major benefits to small businesses. Provisions in the law provide relief from estate taxes; lower taxes on certain kinds of capital gains; allow tax-free rollover of investments in qualifying small businesses; and eliminate alternative minimum tax computations for most small businesses. Additionally, the law provides for the phasing-in of more tax breaks in future years, including expanded deductions for expenses related to a home-based business (effective in 1999) and increased deductions for health insurance for the self-employed (to reach 100 percent by 2007).

These reforms were hard fought and they do provide welcome relief. But any tax changes — even positive changes — come at the cost of complexity and intrusion. The Taxpayer Relief Act of 1997 added hundreds of new provisions to the mind-boggling tax code, further straining the difficult relations between the Internal Revenue Service and the taxpayer.

During the past few months, the Congress and the President have been working on ways to restructure the IRS. Here are the details.

Improving the IRS

In recent months, the Congress and the President have been working on ways to restructure the Internal Revenue Service, to make it more responsive to the needs of taxpayers and to bring it into the era of high technology. Leading the effort is Vice President Al Gore, who commissioned the IRS Customer Service Task Force last May.

The task force report, released by Vice President Gore on March 18, included more than 200 recommendations that share a clear goal:

Late Breaking News

The new IRS commissioner, Charles O. Rossotti, is moving quickly to improve the agency's responsiveness to the needs of small business. The commissioner recently met with SBA Administrator Aida Alvarez and Chief Counsel for Advocacy Jere W. Glover to discuss some new initiatives. On March 31, the commissioner announced that more than 1 million businesses will have an extra six months to switch from paper coupons to the new Electronic Federal Tax Payment System. For more details, visit the IRS' Web site at <http://www.irs.ustreas.gov>.

to ensure that every taxpayer is treated with fairness and respect and that IRS customer service begins to meet the same standards that characterize private sector firms. Many of the recommendations specifically address ways of improving service to small business taxpayers. These include recommendations that the IRS: team up with other federal agencies, financial institutions, tax preparers, and state and local authorities to provide tax information, training, and consultation services to small start-up firms; expand the successful TeleFile (the telephone filing system) to small businesses for the quarterly filing of payroll taxes; provide small businesses with 24-hour-a-day telephone assistance; and work with troubled small businesses to help them comply with tax provisions, stay in business, and avoid future tax problems.

Concurring that improvements are long overdue, IRS Commissioner Charles O. Rossotti said, "It is time for the IRS to start looking at everything we do from the taxpayer's perspective, rather than from our own viewpoint, so that we can provide first-rate service to our customers." And so far, there have been some significant results: the hours of taxpayer assistance telephone lines have been doubled this year, from 50 hours per week to 96 hours per week; and compared with last year, 24 percent more taxpayers are taking advantage of tele-filing, and twice as many electronic filings have been received.

Also, to provide better service to specific categories of taxpayers, the commissioner has split the IRS into four major customer-based divisions. One of these divisions will be devoted exclusively to providing

information to, and handling the returns of, small and self-employed business owners. One of the best results of this restructuring should be that IRS employees will develop a specialized knowledge of small business needs, problems, and pitfalls. From top to bottom, the small business division of the IRS will handle all Internet and e-mail communications, computerized return review, taxpayer assistance, problem resolution, and, finally, enforcement.

Another positive step is the removal of the quota-based enforcement measures against which the IRS evaluated the performance of its agents. Henceforth, the focus for agents will be on working with tax-paying businesses to help them report taxes correctly, rather than resorting to "gotcha" tactics that help neither the business nor the government.

Also, the IRS has begun holding monthly "problem solving days." From November 1997 through January 1998, approximately 17,000 taxpayers took advantage of the new service, meeting face-to-face with IRS representatives to discuss their tax problems. The IRS's 33 district offices are gearing up for additional problem solving days, and the information on locations, dates, and times will be available on the IRS' Internet home page at <http://www.irs.ustreas.gov/prod/hot/prob-solv.html>.

Restructuring Legislation

Among the 60 final recommendations put forth by the delegates to the 1995 White House Conference on Small Business was one calling for the adoption of a "simpler, fairer" tax system. On Capitol Hill, members of the House and Senate are debating major restructuring legislation that would place the operation of the IRS under the direction of an independent board, similar to a corporate board. The House has already passed its version of the bill, the Internal Revenue

The Hill Proposes

Some major tax reform provisions that are being considered by Congress.

■ **Internal Revenue Service Restructuring and Reform Act (H.R. 2676):** among other things, would place the operation of the IRS under the control of an independent board. (Passed by the House on Nov. 5, 1997.)

■ **Putting the Taxpayer First Act (S. 1669):** introduced by Sen. Christopher Bond (R-Mo.), this bill includes a number of provisions designed to provide additional protections for small businesses. Among other things, it would require that proposed IRS regulations be reviewed by a small business advocacy review panel prior to promulgation, so that their impact on small business will be assessed and alternatives considered.

■ **Tax Code Termination Act (H.R. 3079, S. 1673):** these companion bills would scrap the current tax code and obligate Congress to enact an entirely new tax system by July 4, 2001. House and Senate leaders have promised to bring these bills to a vote by July 4 of this year.

Service Restructuring and Reform Act (H.R. 2676), which includes provisions that would:

- shift the burden of proof from the taxpayer to the IRS in certain civil tax cases after administrative remedies are exhausted;
- extend the confidentiality privilege to non-lawyers (such as accountants and enrolled agents) who practice before the IRS;
- provide for up to \$100,000 in civil damages for problems caused when IRS employees negligently disregard the laws in collecting taxes;
- increase the dollar ceiling on small cases eligible for resolution in the U.S. Tax Court from \$10,000 or less to \$25,000 or less.

As the bill moves on for consideration in the Senate, some senators are proposing their own provisions, aimed more specifically at IRS management improvements and small business relief. For example, Sen. Christopher Bond (R-Mo.), the chairman of the Senate Small Business Committee, has introduced a proposal with additional protections to benefit small businesses. Sen. Bond's proposal, the Putting the Taxpayer First Act (S. 1669), would:

- require that IRS proposed regulations be reviewed by a small business advocacy review panel prior to official proposal by the agency, so that their impact on small business will be known and alternatives be considered;
- require that the IRS notify the taxpayer before collecting information from third parties (customers or clients, for example);
- allow a taxpayer to request that an audit be conducted on the premises of a third party (such as an accountant's office) so the business is not interrupted; and
- require that the taxpayer advocate at the IRS and appeals officers report to an independent board instead of the IRS commissioner.

A Whole New Tax Code?

The leadership in the House and Senate have joined with some prominent small business groups to propose a bill that terminates the tax code by the end of the century. To date, 151 representatives and 35 senators have voiced support for the Tax Code Termination Act (H.R. 3097, S. 1673), and Speaker of the House Newt Gingrich (R-Ga.) and

Continued on page 9

Research and Publications

Bank Lending to Small Business Detailed in New Report

Small business lending by banks continued to increase in 1997 according to a new Office of Advocacy study. The 1997 edition of *Small Business Lending in the United States*, released March 19, is the Office of Advocacy's fourth report focusing on the small business lending activities of the nation's commercial banks.

Based on numbers culled from commercial banks' quarterly "call reports" filed with federal banking regulators, the report found the increase in the number of small business loans in 1997 to be impressive — up 25 percent from June 1996 through June 1997. Most of the increases came in the smallest loans (that is, those under \$100,000).

Among other findings of particular interest in *Small Business Lending* are:

- As of mid-1997, commercial banks had \$117 billion in small commercial and industrial loans outstanding and \$67 billion in small commercial mortgage loans, for a total of \$184 billion in bank credit to small businesses.
- Loans in the three small-loan categories featured in the study increased at rates of 4.1 to 5.7 percent.
- Analysis of 1994-1996 call report data shows that banks that were small-business-friendly were more profitable than banks that made few small business loans.

The "Friendliness" Rankings

The report, which has come to be known as the "small-business-friendly banks" study, is an analysis of call report data submitted by some 9,300 individual commercial banks to their respective federal banking regulators. Banks are

Is your bank "small-business-friendly"? A new report published by the Office of Advocacy will tell you.

ranked in each state according to their "small-business-friendliness," defined in the study as making loans of less than \$250,000. (Information also is provided on loans of other sizes, including "micro" loans of less than \$100,000.)

Commenting on the need for such information, Chief Counsel for Advocacy Jere W. Glover said, "It is critical to the health and growth of a small business to know which local banks are meeting the credit needs of small firms and

which banks are investing elsewhere. The rank-order format we use helps small businesses save precious time and shop efficiently for credit."

To provide a more balanced scoring between community banks and large financial institutions, four variables are used to rank the small business lending activities of individual banks: (1) the ratio of small business loans to total assets, (2) the ratio of small business loans to total business loans, (3) the dollar value of small business loans, and (4) the number of small business loans.

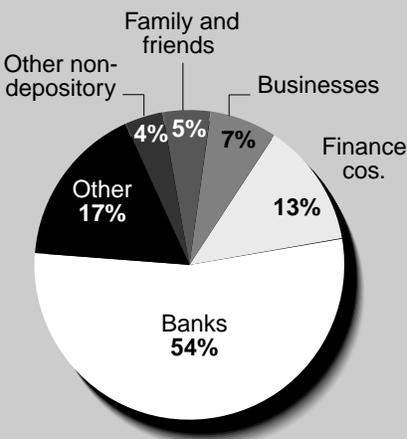
"Show Us the Money"

Recognizing the importance of small business to the U.S. economy, Congress mandated in 1991 that financial institutions report small business loan information to federal banking authorities as part of their quarterly call reports. (Call reports, officially known as "Consolidated Reports of Condition and Income," provide detailed information on the current status of a financial institution. Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991 requires financial institutions to report on an annual basis the number and amount of small business loans.) Beginning in June 1993, federal banking regulators collected appropriate information from commercial banking institutions on all commercial loans under \$1 million.

The call reports on which *Small Business Lending in the United States* is based provide various bank data, including the number and dollar amount of loans outstanding by loan size for business loans of less than \$1 million. These

Banks Are Big

Supply of small business credit by source, 1993.



Source: SBA, Office of Advocacy, from the National Survey of Small Business Finances.

data enable researchers to evaluate commercial banks' small business lending activities.

"It is the Office of Advocacy's hope," said Chief Counsel Glover, "that the 1997 banking study will continue to focus attention on the importance of commercial banks to the start-up and growth of small business and to point out to commercial bankers the profitability of small business lending. We are most appreciative to the members of the U.S. House and Senate Committees on Small Business and Banking, and many individual users of the previous directories, who helped us fine-tune this effort."

SBA Preferred and Certified Lenders

SBA-guaranteed loans sold in the secondary market will be recorded in the number of loans made by banks. It is believed, however, that only the non-guaranteed portion of these loans is included in the dollar value of small loans in the call report. If a bank participates in the SBA's loan programs and utilizes secondary markets extensively, the bank's "small business friendliness" ranking in this study may be artificially low. Banks participating in the SBA's Preferred Lender or

Certified Lender programs should be considered small-business-friendly, and small businesses seeking loans should certainly seek out banks that participate in the SBA's programs.

To find an SBA lender in your area, contact your local SBA office, or the SBA Financial Institutions Branch at (202) 205-6490.

Related Studies and Future Activities

The Office of Advocacy's plans for future studies on lending include a 1997 edition of *The Bank Holding Company Study*, which will rank the multi-billion-dollar bank holding companies according to the dollar amount of small business loans issued as well as the four criteria used in *Small Business Lending in the United States*. The Office of Advocacy also will publish a 1997 edition of *Micro Business Lending in the United States*, which will rank-order the top banks in each state in terms of their micro-lending (loans of \$100,000 and less). Reviews of these studies will be featured in upcoming issues of *The Small Business Advocate*.

Comments and technical questions about the Office of Advocacy's banking studies may be

directed to Dr. Charles Ou, Economist, Office of Advocacy, U.S. Small Business Administration, 409 Third Street, S.W., Washington, D.C. 20416; (202) 205-6966; fax (202) 205-6928.

How to Get the Report

The Office of Advocacy's first bank lending study analyzed June 1994 call report data and was published in December 1994. The 1997 edition of *Small Business Lending in the United States* (as well as the three previous editions) is available on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/lendinginus2.html>.

Paper and microfiche copies of these reports are also available for purchase from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; tel. (703) 605-6000. To purchase the 1997 edition of *Small Business Lending in the United States*, ask for publication no. PB98-133101.

Tax Reform, from page 7

Senate Majority Leader Trent Lott (R-Miss.) have promised to bring the issue to a vote by July 4 of this year. If the act were to become law this summer, the Congress would be obliged to enact a new tax system by July 4, 2001.

While there is growing momentum among lawmakers to pass the termination act, earnest debate about possible replacement systems has been minimal. Rep. Bill Archer (R-Tex.), the chairman of the House Committee on Ways and Means (the major tax writing committee), has advocated replacing the entire tax code with a sales tax or some

other type of consumption tax. Also, Rep. Dick Armey (R-Tex.), the majority leader of the House of Representatives, has proposed a single-rate, flat tax to replace the current code. Other legislative proposals include measures to do away with most tax returns; set up a "flatter," but not completely flat, tax system; or even establish a single rate and let the taxpayer choose to file at the single rate or under the old system.

That the existing tax code could sunset without a well planned replacement system is raising some serious concerns. In a March 19 let-

ter to the chairmen of the two congressional tax committees, nine former commissioners of the IRS expressed their concern about removing the tax code without specifying a replacement and urged defeat of the legislation. Whether the termination bill succeeds or not, simplifying the tax code will still be at the top of most government "to be improved" lists. In fact, it would now appear that the only two things in life of which we can be certain are death and tax reform.

ACE-Net Operators: Ready to Serve You

ACE-Net, the Access to Capital Electronic Network, is the Internet-based service developed by the Office of Advocacy in response to a growing need for a national small business securities market.

Companies seeking investors can get quick access to the system after

filling out a U-7 form and paying a fee of \$450. In 19 states, companies can use a newly developed "short form" instead of the longer U-7 form (see chart on page 11 and a related story in the March 1998 issue of *The Small Business Advocate*).

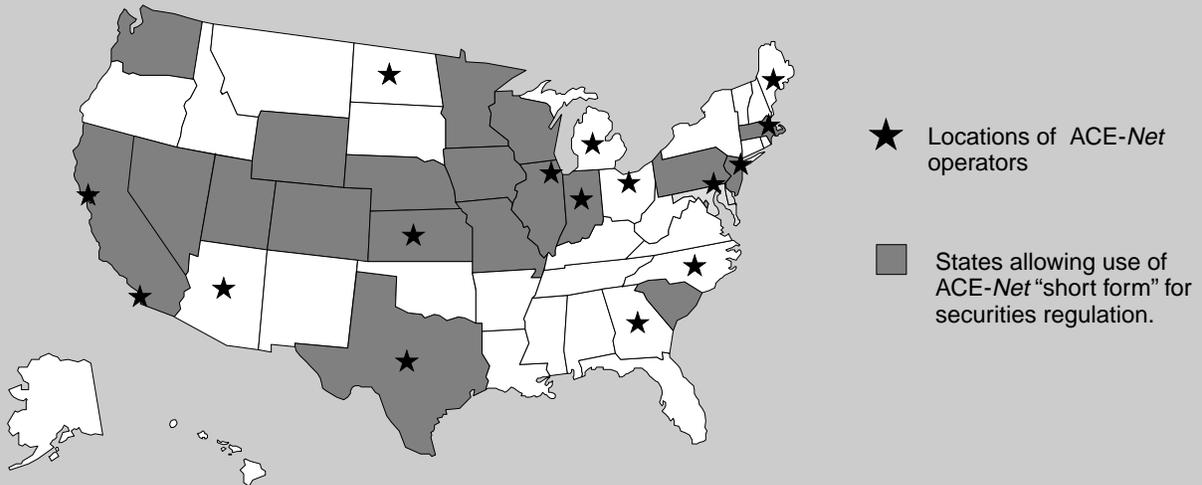
The key to making the ACE-Net system work is the network of operators located across the country. Companies interested in being listed on ACE-Net should contact their nearest ACE-Net operator or visit its home page at <http://www.sba.gov/ADVO/acenet.html>.

ACE-Net Operators

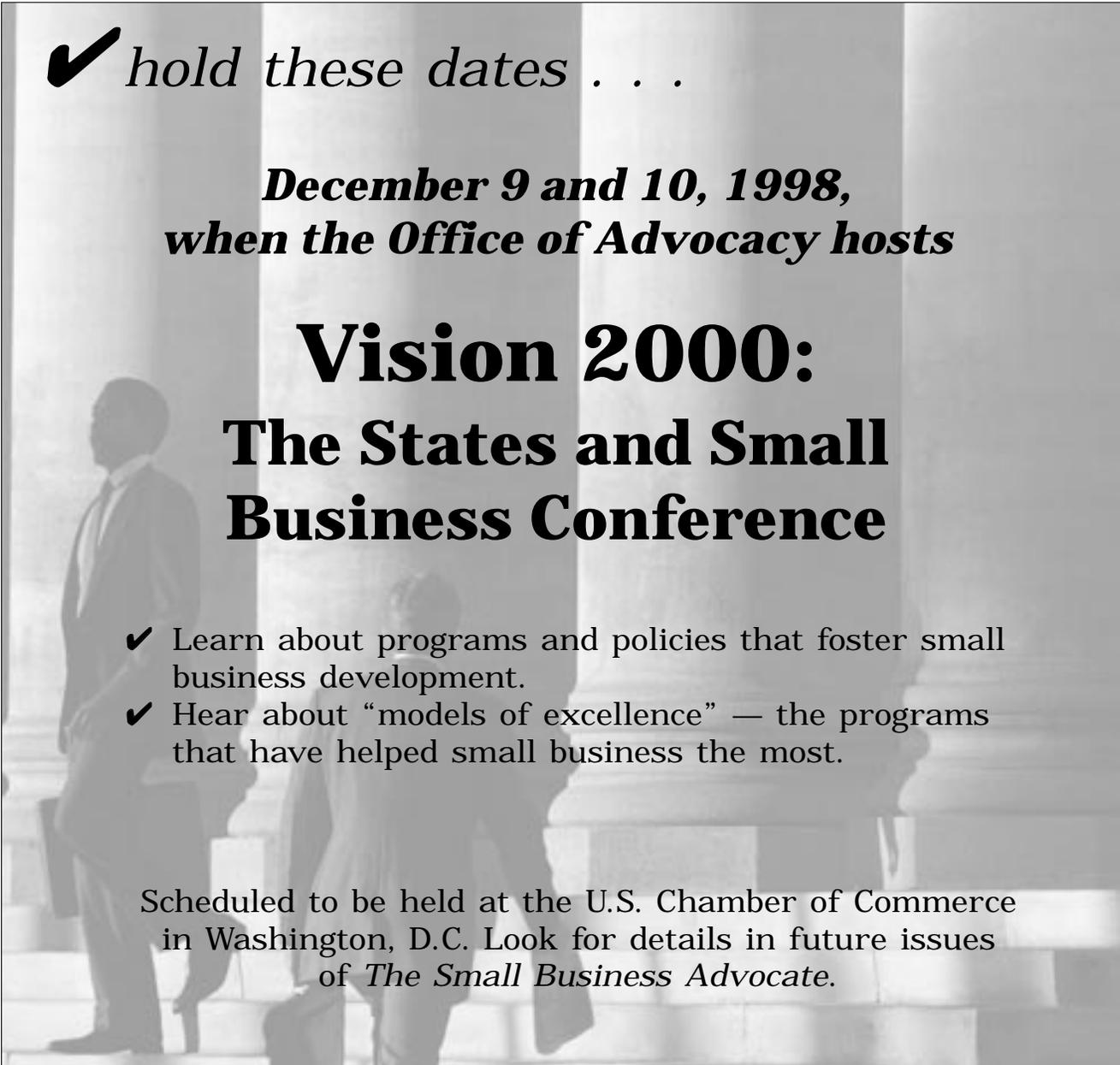
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Illinois	The Illinois Coalition 100 West Randolph St., Suite 111-600 Chicago, IL 60601	Tel. (312) 814-3482 Fax (312) 814-4942 E-mail: john@ilcoalition.org
Indiana	Midwest Entrepreneurial Education Center Ball State University, College of Business Muncie, IN 47306	Tel. (765) 285-9002 Fax (765) 285-9003 E-mail: khurley@gw.bsu.edu
Kansas	Kansas Technology Enterprise Corporation 214 S.W. Sixth, Suite 100 Topeka, KS 66603	Tel. (785) 296-5272 Fax (785) 296-1160 E-mail: dday@ktec.com
Maine	Maine Science and Technology Foundation 87 Winthrop St. Augusta, ME 04330	Tel. (207) 621-6350 Fax (207) 621-6369 E-mail: watson@mstf.org
Massachusetts	Technology Capital Network at MIT c/o Power Sell 101 Main St., 9th Floor Cambridge, MA 02142	Tel. (617) 253-2337 Fax (617) 258-7395 E-mail: tcnmit@mindspring.com

ACE-Net Across the Nation

Locations of ACE-Net operators and states allowing use of ACE-Net "short form" for securities regulation.



Michigan	MERRA P.O. Box 130500 Ann Arbor, MI 48113	Tel. (734) 930-0033 Fax (734) 930-0145 E-mail: keith@merra.org
New Jersey	NJIT Enterprise Development Center 240 Martin Luther King Blvd. Newark, NJ 07102	Tel. (973) 643-4063 Fax (973) 643-4502 E-mail: gaburo@admin.njit.edu
North Carolina	U.S. Investor Network P.O. Box 6344 Raleigh, NC 27628	Tel. (919) 783-0614 Fax (919) 833-8007 E-mail: usin@winning.com
North Dakota	Center for Innovation University of North Dakota P.O. Box 8372 Grand Forks, ND 58202-8372	Tel. (701) 777-2438 Fax (701) 777-2339 E-mail: melland@prairie.nodak.edu
Ohio	Weatherhead School of Management Case Western Reserve University 11000 Cedar Ave. Cleveland, OH 44106-3052	Tel. (216) 229-9455 ext. 122 Fax (216) 229-3236 E-mail: tkraus@edinc.org
Pennsylvania	Ben Franklin Partnership 3625 Market St. Philadelphia, PA 19104	Tel. (215) 382-0380 Fax (215) 387-6050 E-mail: earl@benfranklin.org
Texas	The Capital Network, Inc. 3925 West Braker Lane, Suite 406 Austin, TX 78759-5321	Tel. (512) 305-0826 Fax (512) 305-0386 E-mail: tcn@ati.utexas.edu



✓ *hold these dates . . .*

***December 9 and 10, 1998,
when the Office of Advocacy hosts***

Vision 2000: The States and Small Business Conference

- ✓ Learn about programs and policies that foster small business development.
- ✓ Hear about “models of excellence” — the programs that have helped small business the most.

Scheduled to be held at the U.S. Chamber of Commerce in Washington, D.C. Look for details in future issues of *The Small Business Advocate*.

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