



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

MAY 09 2005

The Honorable John F. Kerry
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Senator Kerry:

This letter is submitted in reply to your letter dated April 15, 2005, in which you request a response to your questions regarding the SBA's liquidation process for the 504 Loan Guarantee program.

- 1) In each fiscal year 2000-2004, (a) how many first lien positions did the agency buy out, (b) on average, how much did the SBA pay to buyout first lien positions and what is the average as a percent of the first lien position and as a percent of the total loan, (c) in total, how much did the SBA pay to buyout the first lien positions and what is the total as a percent of the first lien position and as a percent of the total loan?

SBA does not track in an automated manner the purchase of first lien positions in liquidation situations. This information is available only through review of individual loan files.

- 2) Since the last asset sale, (a) how many 504 loans have defaulted, (b) how many loans are in liquidation or are being worked out, (c) how many loans have been charged off, and (d) on how many defaulted 504 loans has the Agency made a recovery?
 - (a) 982 loans have defaulted since FY 2003.
 - (b) There were 614 loans in liquidation as of 12/31/04. This number changes on a daily basis as loans go into and come out of liquidation status.
 - (c) As shown in Attachment #1, there were 159 loans written off during FY 2003, 193 during FY 2004, and 34 during the first quarter of FY 2005.
 - (d) As shown in Attachment #1, SBA's aggregate recovery rate has been slightly in excess of 40% of the principal balance of the loan.

- 3) In each fiscal year 2000-2004 what was the Agency's percent recovery on the first lien positions it bought out?

SBA does not track in an automated manner the purchase of first lien positions in liquidation situations. This information is available only through review of individual loan files.

- 4) In each fiscal year 2000-2004 what were the number and dollar loan amounts and recovery percentage of loans liquidated by CDCs under the loan liquidation pilot program and, separately, of loans liquidated by premier certified lenders?

The last data available for the loan liquidation pilot program (6/03) showed recoveries of 48% for the CDC serviced liquidations and 47% for the SBA comparison group of cases. SBA has not tracked liquidations by premier certified lenders.

- 5) Please provide a summary of the number of staff (fully or partially) dedicated to loan liquidation in each SBA office.

In FY04 the SBA calculated 77.8 FTE.

- 6) After the Fresno or Little Rock servicing centers return a loan to a district office for liquidation, what is the average time it takes the district offices to close out the loan?

This has not been tracked in an aggregate fashion but is available through review of individual loan files. Loan closure time varies widely because of the differing nature and value of loan collateral, and the types of foreclosure actions that are available in different jurisdictions. If an analysis of lien positions and the financial position of loan obligors shows that no cost-effective recovery can be anticipated, then case closure can be accomplished in a matter of weeks. On the other hand, some judicial foreclosure or bankruptcy actions can require years to complete.

- 7) In each fiscal year from 2000-2004, what was the average time (both median and mean) spent in the liquidation process for those 504 projects in liquidation?

It is difficult to provide a specific number because SBA computer records track the time from default to charge off. The time between default and charge off may be significantly longer than the time necessary for liquidation as charge off does not necessarily take place when liquidation is completed.

- 8) For each fiscal year from 2000-2004 how many 504 loans were being handled by the various United States Attorneys and what was the average and mean time for processing by the United States Attorneys?

We have compiled the following information primarily from reports maintained by most of SBA's field offices. It should be noted, however, that the time it takes to resolve court cases varies widely because of the great variation in state law and the differences in the handling of court dockets by a multitude of courts.

Number of 504 loans
FY 2000 - 229
FY 2001 - 308
FY 2002 - 417
FY 2003 - 452
FY 2004 - 517

The "average and mean time" for handling the 504 loan litigation was 10.2 months (306 days).

- 9) Please provide a description of the liquidation process of 504 loans.

Although specific steps will differ from case to case, the following are general guidelines. First, it is determined whether a workout is possible through obtaining financial statements from the business and guarantors, conducting a site visit and coordinating with the third party lender that holds the first lien position. If a workout is not possible, the debenture will be purchased. A liquidation plan will then be prepared with lien searches conducted and appraisals obtained on major collateral, as necessary. Environmental reviews may also be needed depending on the nature of the borrower's business and past uses of the property. Foreclosure on collateral may be initiated if sufficient equity exists, which may be coordinated with the first lienholder in any foreclosure action that is pending. An analysis must be made to determine whether a protective bid will be entered in a prior lienholder's foreclosure proceeding. After collateral is liquidated, guarantors will be pursued if a deficiency balance remains.

Should you or your staff have any further questions, please contact Edward "Tee" Rowe, Acting Associate Administrator, Office of Congressional and Legislative Affairs at (202) 205-6700.

Sincerely,

A handwritten signature in cursive script that reads "Hector V. Barreto". The signature is written in black ink and is positioned above the printed name and title.

Hector V. Barreto
Administrator

Enclosure

ATTACHMENT #1

504

Number of defaulted loans	423	468	91
Dollar value of defaulted loans ¹	\$ 157,641,714	\$ 129,480,162	\$ 22,370,249
Number of loans in liquidation at end of year	569	628	614
Dollar value of loans in liquidation at end of year	\$231,763,515	\$265,553,274	\$256,448,182
Number of loans charged off During year	159	193	34
Dollar amount written off During year	\$73,223,504	61,121,436	\$14,125,162
Total dollars recovered during year ²	\$ 19,758,444	\$ 58,060,368	\$ 9,452,021
Recovery rate on defaulted loans	40.24 % ³	40.24 % ⁴	44.03 % ⁵

¹ Data through 12/31/2004.

¹ Transaction codes 215 and 224.

² Gross recoveries minus expenses.

³ Recovery rate used for the September 2004 reestimates.

⁴ Recovery rate used for the September 2004 reestimates.

⁵ Recoveries as a percentage of lifetime defaults as found in the Federal Credit Supplement.