

INTRODUCTION TO THE LOSS REPORT

The FY 1996 SBA Loss Report has been redesigned to better meet the needs of Agency Management. This report serves as a management tool for the analysis of the Agency's loss experience for various loan programs of the SBA. The Loss Report focuses on the actual losses as a percentage of disbursements made to date on SBA loan programs. Included in this year's report is a disclosure of the Agency's historical losses plus activity for the past two years. The presentation has been streamlined to allow the user, at a glance, to review historical and current data, for each of the Agency's primary lending programs.

The concept of charge-off deserves some explanation. The SBA has an extensive debt servicing and collection plan to assure maximum recovery of loans made. Therefore, all reasonable efforts are made by the Agency to fully collect the debt prior to charge-off. This effort included the use of modern collection methods and the acquisition and sale of collateral through liquidation processes. Only after the Agency has exhausted these collection methods does SBA classify a loan as charged-off. For guaranty loans, the loan must first be purchased from the participating lender before this classification can be made. Also, charge-off is a reportable status assigned to a debt of the Agency. The assignment of this status does not preclude the Agency from further collection remedies if it is determined that these efforts would result in additional collections to the Agency. It should be noted that cumulative charged off loan amounts are principal only.

In addition, the "costs of doing business" related to SBA's lending programs have been addressed. Also considered are losses on the sale of "ColPur" (Collateral Purchased), e.g., real estate and other property that have been acquired by the Agency due to borrowers' loan defaults. These and other additional costs, when factored into the traditional actual - loss calculations for fiscal years since 1992, give a truer picture of the component costs associated with the overall SBA lending programs.

Finally, it should be noted that data from SBA's mainframe and general ledger were utilized to complete this report.

SBA LOAN PROGRAMS

General Information

Direct Loans are available only to certain special categories of borrowers who are unable to obtain

lender participation loans. Direct loans are disbursed directly from SBA funds. Direct loans have an administrative ceiling of \$150,000 in amount. Currently, SBA only lends directly in the Microloan Business Program and the Disaster Loan Program.

Immediate Participation (IP) Loans are those made jointly by SBA and private lenders. SBA's participation is administratively limited to 75% or \$150,000, whichever is less. IP loans are permissible only when a guaranty loan is unavailable to the borrower. This program is seldom used, and for the purposes of the loss study, these loans are included in the Direct Loan category.

Guaranteed Loans are made and disbursed by private lenders and guaranteed (generally up to 75%) by SBA. Upon default on the loan by the borrower, SBA will purchase an agreed-upon share of the unpaid balance of the loan. Maximum exposure allowable for SBA on a General Business guaranteed loan is \$750,000.

Loan Proceeds may be used to establish a new business or to assist in the operation, acquisition or expansion of an existing business. Uses may include working capital; the purchase of inventory, machinery and equipment; and the construction, expansion and rehabilitation of business property.

Loan Maturity varies according to the prudent economic life of the assets being financed, subject to the following maximums:

- Working Capital- 7 to 10 years
- Machinery and Equipment- 10 to 25 years
- Building Construction or Purchase- 25 years

Interest Rate is set quarterly by Central office for direct loans. Guaranty loan rates may not exceed the New York prime rate by more than 2.25% for loans with a maturity of under 7 years or 2.75% for loans with a maturity of 7 years or more.

The above information applies to Business loans. Disaster loans are covered in a separate section of this report.

Note: All guidelines are of a general nature and subject to exceptions.

GENERAL BUSINESS PROGRAM

Defined under Section 7(a) of the Small Business Act, the 7(a) program is now more accurately called the General Business Program and is by far the largest of SBA's lending programs, accounting for approximately 85% of all loan disbursements.

General Business loans are always guaranty loans. The IP and direct loan programs for general business loans were discontinued in 1993. General Business loans in this report include Economic Opportunity, Small Business Energy, Handicap Assistance, Veterans, Pollution Control and Import

Export loan programs.

DEVELOPMENT COMPANY PROGRAM

The Development Company program is actually a grouping of four separate and distinct lending programs defined under Section 7(a)(13) of the Small Business Act and Title V of the Small Business Investment Act. In general, all four programs consist of loans made through development companies for the purpose of fostering economic development in both urban and rural areas.

Section 501 (State) development companies are funded by a partnership arrangement between SBA and state governments. State development company loans are direct in nature. This program has not been in effect since 1982.

Section 502 (Local) development companies were similar in nature to the 501 Loan program, only local, rather than state, governments are involved. The 502 program was discontinued in 1995.

Section 503 and 504 (Certified) development companies provide fixed asset financing to small businesses for the construction or rehabilitation of owner-occupied or leased premises. These are guaranty loans only. The Section 503 program was discontinued in 1986 and was replaced by the Section 504 program.

SMALL BUSINESS INVESTMENT COMPANIES

SBA's Small Business Investment Company (SBIC) program provides long-term loans and/or venture capital to small firms. SBICs are privately owned and operated investment companies that are licensed and regulated by SBA. Venture capitalists participate in the SBIC program to supplement their own private capital with funds provided through SBA's guarantee of SBIC debentures and preferred securities that are sold to private investors. SBA also licenses specialized SBICs (SSBICs), which specialize in meeting the needs of small firms owned by socially or economically disadvantaged persons. In addition to debentures and preferred securities, SSBICs may also leverage their own private capital by selling SBA non-voting preferred stock. SBICs also issue participating securities that are guaranteed by SBA and that provide SBA potential revenue for its guarantee of timely payment of amounts due to the debenture holders. The following types of investments are commonly used by SBICs:

Loans with Warrants: SBICs may make loans in return for warrants that enable them to purchase common stock, usually at a favorable price, during a specific period of time.

Convertible Debentures: SBICs may make loans with a conversion feature whereby the debenture can be converted, at the SBICs option, into an equivalent amount of common stock.

Stock: SBICs may purchase common or preferred stock from small firms.

Partnership Interests: SBICs may purchase a limited partnership interest in a partnership.

DISASTER LOAN PROGRAM

Under the Disaster loan program, business owners, individuals and nonprofit organizations are eligible for SBA financial assistance to repair the damage caused by natural disasters, such as hurricanes, floods and tornadoes. When the President or the SBA Administrator declares a specific area to be a disaster area, two types of direct loans are offered by SBA:

Physical Damage Disaster Loans are available to homeowners, renters, large and small businesses and nonprofit organizations.

Economic Injury Disaster Loans are made to small businesses and small agricultural cooperatives that suffer substantial economic injury because of a physical disaster.

Interest rates on Disaster Home loans are handled differently than other loans. If a borrower is deemed able to obtain credit elsewhere, the interest rate may not exceed 8%. For borrowers that cannot obtain alternative financing, the interest rate may not exceed 4%. Loan maturity is also based on credit eligibility. Disaster Business loan borrowers eligible for credit from other sources generally receive loans with a maturity not to exceed 3 years. Those borrowers that are unable to secure credit elsewhere can receive loans with a maturity of up to 30 years.

MICROLOAN PROGRAM

On October 28, 1991 the President signed Public Law 102-140, the Commerce, Justice, State, The Judiciary, and Related Agencies Appropriations Act of 1992. Section 609 (h) of that law added a new subsection (m) to section 7 of the Small Business Act, 15 U.S.C. 636 (the Act). The new subsection authorized the Small Business Administration (SBA) to establish the Microloan Demonstration Program.

The purpose of this program is to assist women, low income and minority entrepreneurs, business owners and other such individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from a lack of credit due to economic downturn.

SBA will make direct loans to eligible and qualified intermediary lenders who will use the loan proceeds to make short-term, fixed interest rate microloans, particularly loans in amounts less than \$25,000 for start-up, newly established and growing small business concerns. In conjunction with the loans made to intermediary lenders, SBA will make grants to such intermediary lenders to be used to provide intensive marketing, management and technical assistance to microloan borrowers under this program. In addition, SBA is authorized to make limited grants to eligible and qualified non-profit entities to provide marketing, management and technical assistance to help low income individuals obtain, with or without loan guarantees, private sector financing for their small businesses.

This program, in accordance with the 1991 legislation, was effective for five (5) years. Currently, the program has been reauthorized through 1997.

SBA LOAN LOSS REPORT

SECTION I

Actual Losses On Pre Credit Reform and Credit Reform Loans (Consolidated)

General Business Loans	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1994	\$5,505,874,431	\$53,742,446,214	\$59,248,320,645
FY 1995	\$13,498,654	\$6,170,216,759	\$6,183,715,413
FY 1996	\$1,712,058	\$3,724,198,149	\$3,725,910,207
Cumulative Disbursements	\$5,521,085,143	\$63,636,861,122	\$69,157,946,265

Charged Off Loans			
Balance as of 1994	\$1,044,807,116	\$4,262,489,211	\$5,307,296,327
*FY 1995	\$26,966,921	\$208,360,276	\$235,327,197
1996 Loan Principal	\$10,533,436	\$258,028,179	\$268,561,615
1996 Judgment Principal	\$740,114	\$6,011,721	\$6,751,835
1996 Other Receivables	\$2,812,872	\$2,351,142	\$5,164,014
Cumulative Charged Off Loans	\$1,085,860,459	\$4,737,240,529	\$5,823,100,988
Recoveries			
Balance as of 1994	\$53,481,345	\$152,819,383	\$206,300,728
FY 1995	\$3,040,506	\$13,632,109	\$16,672,615
FY 1996	\$2,171,957	\$18,716,755	\$20,888,712
Cumulative Recoveries	\$58,693,808	\$185,168,247	\$243,862,055
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$1,027,166,651	\$4,552,072,282	\$5,579,238,933
Actual Loss Rate (Actual Losses/Disbursements)	18.60%	7.15%	8.07%

*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

Development Company Loans	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1994	\$696,140,948	\$4,600,855,414	\$5,296,996,362
FY 1995	\$0	\$1,023,934,719	\$1,023,934,719
FY 1996	\$0	\$1,509,223,398	\$1,509,223,398
Cumulative Disbursements	\$696,140,948	\$7,134,013,531	\$7,830,154,479
Charged Off Loans			
Balance as of 1994	\$176,011,325	\$74,456,381	\$250,467,706
*FY 1995	\$5,266,434	\$19,545,451	\$24,811,885
1996 Loan Principal	\$2,815,570	\$22,133,045	\$24,948,615
1996 Judgment Principal	\$5	\$228,332	\$228,337
1996 Other Receivables	\$242,929	\$19,901	\$262,830
Cumulative Charged Off Loans	\$184,336,263	\$116,383,110	\$300,719,373
Recoveries			
Balance as of 1994	\$6,218,424	\$2,976,028	\$9,194,452
FY 1995	\$281,700	\$713,251	\$994,951
FY 1996	\$467,633	\$564,826	\$1,032,459
Cumulative Recoveries	\$6,967,757	\$4,254,105	\$11,221,862

Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$177,368,506	\$112,129,005	\$289,497,511
Actual Loss Rate (Actual Losses/Disbursements)	25.48%	1.57%	3.70%

*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

Small Business Investment Companies (SBIC)	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1994	\$779,491,667	\$2,665,590,846	\$3,445,082,513
FY 1995	\$17,642,194	\$338,410,000	\$356,052,194
FY 1996	\$1,086,806	\$400,770,000	\$401,856,806
Cumulative Disbursements	\$798,220,667	\$3,404,770,846	\$4,202,991,513
Charged Off Loans			
Balance as of 1994	\$55,733,036	\$210,178,306	\$265,911,342
*FY 1995	\$4,115,736	\$7,840,752	\$11,956,488
1996 Loan Principal	\$2,936,025	\$10,490,005	\$13,426,030
1996 Judgment Principal	\$3,627,081	\$5,041,495	\$8,668,576
1996 Other Receivables	\$1,694,708	\$3,246,482	\$4,941,190
Cumulative Charged Off Loans	\$68,106,586	\$236,797,040	\$304,903,626
Recoveries			
Balance as of 1994	\$8,109,236	\$43,646,528	\$51,755,764
FY 1995	\$83,249	\$20,446	\$103,695
FY 1996	(\$1,173,562)	\$4,645	(\$1,168,917)
Cumulative Recoveries	\$7,018,923	\$43,671,619	\$50,690,542
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$61,087,663	\$193,125,421	\$254,213,084
Actual Loss Rate (Actual Losses/Disbursements)	7.65%	5.67%	6.05%

*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

Microloan Loans	Direct/IP	Guaranteed	Program Total
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Disbursements			
Balance as of 1994	\$28,433,303	\$0	\$28,433,303
FY 1995	\$9,783,088	\$0	\$9,783,088
FY 1996	\$10,186,744	\$0	\$10,186,744
Cumulative Disbursements	\$48,403,135	\$0	\$48,403,135
Charged Off Loans			
Balance as of 1994	\$0	\$0	\$0
*FY 1995	\$0	\$0	\$0
1996 Loan Principal	\$0	\$0	\$0
1996 Judgment Principal	\$0	\$0	\$0
1996 Other Receivables	\$0	\$0	\$0
Cumulative Charged Off Loans	\$0	\$0	\$0
Recoveries			
Balance as of 1994	\$0	\$0	\$0
FY 1995	\$0	\$0	\$0
FY 1996	\$0	\$0	\$0
Cumulative Recoveries	\$0	\$0	\$0
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$0	\$0	\$0
Actual Loss Rate (Actual Losses/Disbursements)	0.00%	0.00%	0.00%

*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

All Business Loans	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1994	\$7,009,940,349	\$61,008,892,474	\$68,018,832,823
FY 1995	\$40,923,936	\$7,532,561,478	\$7,573,485,414
FY 1996	\$12,985,608	\$5,634,191,547	\$5,647,177,155
Cumulative Disbursements	\$7,063,849,893	\$74,175,645,499	\$81,239,495,392
Charged Off Loans			
Balance as of 1994	\$1,276,551,477	\$4,547,123,898	\$5,823,675,375
*FY 1995	\$36,349,091	\$235,746,479	\$272,095,570
1996 Loan Principal	\$16,285,031	\$290,651,229	\$306,936,260
1996 Judgment Principal	\$4,367,200	\$11,281,548	\$15,648,748
1996 Other Receivables	\$4,750,509	\$5,617,525	\$10,368,034
Cumulative Charged Off Loans	\$1,338,303,308	\$5,090,420,679	\$6,428,723,987

Recoveries			
Balance as of 1994	\$67,809,005	\$199,441,939	\$267,250,944
FY 1995	\$3,405,455	\$14,365,806	\$17,771,261
FY 1996	\$1,466,028	\$19,286,226	\$20,752,254
Cumulative Recoveries	\$72,680,488	\$233,093,971	\$305,774,459
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$1,265,622,820	\$4,857,326,708	\$6,122,949,528
Actual Loss Rate (Actual Losses/Disbursements)	17.92%	6.55%	7.54%

*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

Disaster Loans	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1994	\$16,985,281,064	\$39,246,968	\$17,024,528,032
FY 1995	\$1,891,554,168	\$436,000	\$1,891,990,168
FY 1996	\$946,959,378	\$0	\$946,959,378
Cumulative Disbursements	\$19,823,794,610	\$39,682,968	\$19,863,477,578
Charged Off Loans			
Balance as of 1994	\$1,588,852,837	\$1,936,933	\$1,590,789,770
*FY 1995	\$75,626,259	\$0	\$75,626,259
1996 Loan Principal	\$86,756,465	\$0	\$86,756,465
1996 Judgment Principal	\$605,837	\$0	\$605,837
1996 Other Receivables	\$1,749,560	\$0	\$1,749,560
Cumulative Charged Off Loans	\$1,753,590,958	\$1,936,933	\$1,755,527,891
Recoveries			
Balance as of 1994	\$115,285,010	\$6,525	\$115,291,535
FY 1995	\$10,472,687	\$0	\$10,472,687
FY 1996	\$9,517,079	\$0	\$9,517,079
Cumulative Recoveries	\$135,274,776	\$6,525	\$135,281,301
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$1,618,316,182	\$1,930,408	\$1,620,246,590
Actual Loss Rate (Actual Losses/Disbursements)	8.16%	4.86%	8.16%

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*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

All Agency Programs	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1994	\$23,995,221,413	\$61,048,139,442	\$85,043,360,855
FY 1995	\$1,932,478,104	\$7,532,997,478	\$9,465,475,582
FY 1996	\$959,944,986	\$5,634,191,547	\$6,594,136,533
Cumulative Disbursements	\$26,887,644,503	\$74,215,328,467	\$101,102,972,970
Charged Off Loans			
Balance as of 1994	\$2,865,404,314	\$4,549,060,831	\$7,414,465,145
*FY 1995	\$111,975,350	\$235,746,479	\$347,721,829
1996 Loan Principal	\$103,041,496	\$290,651,229	\$393,692,725
1996 Judgment Principal	\$4,973,037	\$11,281,548	\$16,254,585
1996 Other Receivables	\$6,500,069	\$5,617,525	\$12,117,594
Cumulative Charged Off Loans	\$3,091,894,266	\$5,092,357,612	\$8,184,251,878
Recoveries			
Balance as of 1994	\$183,094,015	\$199,448,464	\$382,542,479
FY 1995	\$13,878,142	\$14,365,806	\$28,243,948
FY 1996	\$10,983,107	\$19,286,226	\$30,269,333
Cumulative Recoveries	\$207,955,264	\$233,100,496	\$441,055,760
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$2,883,939,002	\$4,859,257,116	\$7,743,196,118
Actual Loss Rate (Actual Losses/Disbursements)	10.73%	6.55%	7.66%

*Loan Principal, Judgment Principal and Other Receivables shown in aggregate for FY 1995.

SBA LOAN LOSS REPORT

SECTION II

Other Program Costs

OTHER PROGRAM COSTS

Non-recoverable Program Expenses and ColPur Losses -- Definition

Other costs associated with SBA's loan programs include non-recoverable program expenses and losses on ColPur. These additional costs are an incremental factor in the total cost of SBA's credit programs.

Non-recoverable program expenses are those expenses absorbed by the Agency associated with its loan portfolio. These expenses are typically small in nature and classified as non-recoverable in that they are not added to the borrower's indebtedness. Examples include fees for title searches, UCC refile charges and other miscellaneous expenses.

The term "ColPur" represents pledged collateral, the title to which is held by the Agency following borrower default on a loan. Title may be transferred to SBA in one of two ways. First, a borrower may enter into a compromise agreement with SBA, offering the collateral in lieu of payment. An agreed-upon value is assigned to the collateral and the borrower's indebtedness is reduced accordingly. The second method is through outright purchase of the property. Upon borrower default on a loan, the collateral is auctioned off at a sale. SBA issues a protective bid on the property that, if not outmatched, effectively results in SBA buying out all prior lien-holders and assuming title to the property.

This collateral is not held indefinitely. The Agency sells off the collateral, recovering what it can from the sale. In cases where the amount recovered is less than what the Agency paid or compromised the property for, a loss on ColPur is recognized.

These costs are summarized for FY 1995 and 1996 on the following pages.

**Other Program Costs:
Total CPC and non-Recoverable Expenses, Net Losses on ColPur in FY 1995**

	Gen. Business	Local Dev	SBIC	Disaster	Total
Total Non-Recoverable Expenses	\$9,453	(\$882,602)	\$0	(\$180)	(\$873,328)
GAINS					
Gain on Sale of ColPur	\$4,089,586	\$495,356	\$15,947	\$498,622	\$5,099,511
Income Earned on Assets Acquired	\$5,191	\$0	\$0	\$0	\$5,191
Gross Gains on ColPur	\$4,094,777	\$495,356	\$15,947	\$498,622	\$5,104,702
LOSSES					
Loss on Sale of ColPur	\$21,389,247	\$296,561	(\$15,640)	\$1,866,628	\$23,536,795
Expenses Incurred on Assets Acquired	\$19,828	\$0	\$0	\$0	\$19,828
Gross Losses on ColPur	\$21,409,074	\$296,561	(\$15,640)	\$1,866,628	\$23,556,623
Net Gain (Loss) on ColPur	(\$17,314,297)	\$198,795	\$31,587	(\$1,368,006)	(\$18,451,921)
Total Additional Program Costs	(\$17,323,751)	\$1,081,397	\$31,587	(\$1,367,826)	(\$17,578,593)

**Other Program Costs:
Total CPC and non-Recoverable Expenses, Net Losses on ColPur in FY 1996**

	Gen. Business	Local Dev	SBIC	Disaster	Total
Total Non-Recoverable Expenses	\$30,437	\$53,232	\$0	\$7,505,831	\$7,589,500
GAINS					
Gain on Sale of ColPur	\$3,048,574	\$497,375	\$234,894	\$103,241	\$3,884,084
Income Earned on Assets Acquired	(\$1,275)	\$0	\$0	\$0	(\$1,275)
Gross Gains on ColPur	\$3,047,299	\$497,375	\$234,894	\$103,241	\$3,882,809
LOSSES					
Loss on Sale of ColPur	\$23,260,445	\$968,842	\$22,461,123	\$5,057,716	\$51,748,126
Expenses Incurred on Assets Acquired	\$82,651	\$0	\$0	\$479	\$83,130
Gross Losses on ColPur	\$23,343,096	\$968,842	\$22,461,123	\$5,058,195	\$51,831,256
Net Gain (Loss) on ColPur	(\$20,295,797)	(\$471,467)	(\$22,226,229)	(\$4,954,954)	(\$47,948,447)
Total Additional Program Costs	(\$20,326,234)	(\$524,699)	(\$22,226,229)	(\$12,460,785)	(\$55,537,947)

GLOSSARY OF TERMS

Actual Loss Rate

Calculated as a percentage, this figure represents the ratio of net losses to total disbursements. Both net losses and disbursements are cumulative, inception to date for the program.

ColPur

This term is an abbreviation for "Collateral Purchased" and refers to pledged collateral that the Agency holds title to following borrower default on a loan.

Credit Reform

Accountability requirements pursuant to the Federal Credit Reform Act of 1990 in which credit program costs are recognized at the time obligations are incurred and reflect loan subsidies and Treasury borrowings as component cost elements.

Disbursements

Cumulative total of the principal amount loaned under a particular program. Depending on the loan type (i.e., Direct, Guaranteed or Immediate Participation), the disbursement of monies is made by SBA, the participating lender or both.

Judgment

A judgment is obtained when SBA goes to court in order to collect on a defaulted loan.

Loans Charged-Off

The cumulative total of principal balance still owed SBA that has been determined uncollectible.

Non-Recoverable Program Expenses

Expenses absorbed by the Agency associated with its loan portfolio, such as title search fees and UCC refile charges. These expenses are typically small in nature and classified as nonrecoverable in that they are not added to the borrower's outstanding indebtedness. Normally, loan expenses are added to the borrower's balance, as they are recoverable against the borrower's account.

Other Receivables

This term refers to two different types of note receivable. The first is a note that is set up against ColPur, while the other is a note set up against the borrower. Defaults on the former are included in the charge-off figure whereas the latter are not, since they are considered a separate and distinct debt from the original loan.

Recoveries

Borrower payments of principal and interest, judgments and other receivables applied to loans charged-off.