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INTRODUCTION TO THE LOSS REPORT

The FY 1999 Small Business Administration Loss Report serves as a management tool for the analysis of the Agency's loss experience for various loan programs. 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. The presentation allows the user, at a glance, to review historical and current data, for each of the Agency's primary lending programs. The report combines the results of loans made since FY 1992, which are subject to the requirements of Federal Credit Reform accounting, with the results of loans made prior to FY 1992, which are not subject to this accounting requirement.

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 complete picture of the component costs associated with the overall SBA lending programs. We have not included, however, the losses on the financing of the sale of acquired collateral due to the lack of historical information.

Finally, it should be noted that data from SBA's official records 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 less than 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 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 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 SBIC's 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 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 and 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.

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 1998	\$5,521,222,814	\$75,662,169,440	\$81,183,392,254
FY 1999	\$35,000	\$6,079,189,995	\$6,079,224,995
Cumulative Disbursements	\$5,521,257,814	\$81,741,359,435	\$87,262,617,249
Charged Off Loans			
Balance as of 1998	\$1,106,302,516	\$5,292,372,990	\$6,398,675,506
1999 Loan Principal	\$26,727,476	\$367,583,076	\$394,310,552
1999 Judgment Principal	\$479,032	\$7,143,608	\$7,622,640
1999 Other Receivables	\$1,764,262	\$10,195,997	\$11,960,259
Cumulative Charged Off Loans	\$1,135,273,286	\$5,677,295,671	\$6,812,568,957
Recoveries			
Balance as of 1998	\$63,028,505	\$228,052,234	\$291,080,739
FY 1999	\$1,907,146	\$16,740,463	\$18,647,609
Cumulative Recoveries	\$64,935,651	\$244,792,697	\$309,728,348
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$1,070,337,635	\$5,432,502,974	\$6,502,840,609
Actual Loss Rate (Actual Losses/Disbursements)	19.39%	6.65%	7.45%

*The following loan programs are included: 7(a), 8(A), Economic Opportunity, Small Business Energy,

Handicap Assistance, Veterans, Pollution Control, and ImportExport.

Development Company Loans	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1998	\$696,140,948	\$10,309,063,851	\$11,005,204,799
FY 1999	\$-	\$1,530,195,000	\$1,530,195,000
Cumulative Disbursements	\$696,140,948	\$11,839,258,851	\$12,535,399,799
Charged Off Loans			
Balance as of 1998	\$190,407,929	\$168,506,087	\$358,914,016
1999 Loan Principal	\$2,147,658	\$35,709,960	\$37,857,618
1999 Judgment Principal	\$700,378	\$732,694	\$1,433,072
1999 Other Receivables	\$-	\$381,169	\$381,169
Cumulative Charged Off Loans	\$193,255,965	\$205,329,911	\$398,585,876
Recoveries			
Balance as of 1998	\$7,778,008	\$6,561,567	\$14,339,575
FY 1999	\$771,168	\$453,321	\$1,224,489
Cumulative Recoveries	\$8,549,176	\$7,014,888	\$15,564,064
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	\$184,706,789	\$198,315,023	\$383,021,812
Actual Loss Rate (Actual Losses/Disbursements)	26.53%	1.68%	3.06%

*The opening disbursements balance has been adjusted to exclude USCAIP figures. USCAIP reported separately.

SBIC (Small Business Investment Companies)	Direct/IP	Guaranteed	Program Total
Disbursements			
Balance as of 1998	\$798,220,667	\$4,162,065,846	\$4,960,286,513
FY 1999	\$-	\$681,900,000	\$681,900,000
Cumulative Disbursements	\$798,220,667	\$4,843,965,846	\$5,642,186,513
Charged Off Loans			

Balance as of 1998	\$140,963,266	\$337,144,232	\$478,107,498
1999 Loan Principal	\$6,665,755	\$1,333	\$6,667,088
1999 Judgment Principal	\$12,778,789	\$10,190,867	\$22,969,656
1999 Other Receivables	\$10,454,392	\$-	\$10,454,392
Cumulative Charged Off Loans	\$170,862,202	\$347,336,432	\$518,198,634

Recoveries

Balance as of 1998	\$7,862,647	\$42,658,438	\$50,521,085
FY 1999	\$108,132	\$1,457,154	\$1,565,286
Cumulative Recoveries	\$7,970,779	\$44,115,591	\$52,086,370

Actual Net Losses

Cumulative Charged Off Loans Net of Cumulative Recoveries	\$162,891,423	\$303,220,840	\$466,112,263
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Actual Loss Rate (Actual Losses/Disbursements)	20.41%	6.26%	8.26%
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USCAIP Guaranty

(NAFTA)	Direct/IP	Guaranteed	Program Total
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Disbursements

Balance as of 1998	\$-	\$10,340,727	\$10,340,727
FY 1999	\$-	\$15,592,067	\$15,592,067
Cumulative Disbursements	\$-	\$25,932,794	\$25,932,794

Charged Off Loans

Balance as of 1998	\$-	\$-	\$-
1999 Loan Principal	\$-	\$-	\$-
1999 Judgment Principal	\$-	\$-	\$-
1999 Other Receivables	\$-	\$-	\$-
Cumulative Charged Off Loans	\$-	\$-	\$-

Recoveries

Balance as of 1998	\$-	\$-	\$-
FY 1999	\$-	\$-	\$-
Cumulative Recoveries	\$-	\$-	\$-

Actual Net Losses

Cumulative Charged Off Loans Net of Cumulative Recoveries	\$-	\$-	\$-
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Actual Loss Rate (Actual Losses/Disbursements)	0.00%	0.00%	0.00%
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*Data for the FY98 Report was included with Development Company Loans.

Microloan Loans	Direct/IP	Guaranteed	Program Total
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Disbursements

Balance as of 1998	\$62,710,495	\$3,350,584	\$66,061,079
FY 1999	\$10,965,770	\$120,000	\$11,085,770
Cumulative Disbursements	\$73,676,265	\$3,470,584	\$77,146,849

Charged Off Loans

Balance as of 1998	\$-	\$-	\$-
1999 Loan Principal	\$-	\$-	\$-
1999 Judgment Principal	\$-	\$-	\$-
1999 Other Receivables	\$-	\$-	\$-
Cumulative Charged Off Loans	\$-	\$-	\$-

Recoveries

Balance as of 1998	\$-	\$-	\$-
FY 1999	\$-	\$-	\$-
Cumulative Recoveries	\$-	\$-	\$-

Actual Net Losses

Cumulative Charged Off Loans Net of Cumulative Recoveries	\$-	\$-	\$-
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Actual Loss Rate (Actual Losses/Disbursements)	0.00%	0.00%	0.00%
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All Business Loans	Direct/IP	Guaranteed	Program Total
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Disbursements

Balance as of 1998	\$7,078,294,924	\$90,146,990,448	\$97,225,285,372
FY 1999	\$11,000,770	\$8,306,997,061	\$8,317,997,831
Cumulative Disbursements	\$7,089,295,694	\$98,453,987,509	\$105,543,283,203

Charged Off Loans

Balance as of 1998	\$1,437,673,711	\$5,798,023,309	\$7,235,697,020
1999 Loan Principal	\$35,540,888	\$403,294,369	\$438,835,258
1999 Judgment Principal	\$13,958,199	\$18,067,169	\$32,025,369
1999 Other Receivables	\$12,218,655	\$10,577,166	\$22,795,820
Cumulative Charged Off Loans	\$1,499,391,453	\$6,229,962,014	\$7,729,353,467

Recoveries

Balance as of 1998	\$78,669,160	\$277,272,239	\$355,941,399
FY 1999	\$2,786,446	\$18,650,937	\$21,437,384
Cumulative Recoveries	\$81,455,606	\$295,923,176	\$377,378,782

Actual Net Losses

Cumulative Charged Off Loans Net of Cumulative Recoveries	\$1,417,935,847	\$5,934,038,838	\$7,351,974,685
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Actual Loss Rate (Actual Losses/Disbursements)	20.00%	6.03%	6.97%
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Disaster Loans	Direct/IP	Guaranteed	Program Total
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Disbursements

Balance as of 1998	\$21,322,690,648	\$39,817,968	\$21,362,508,616
FY 1999	\$750,642,556	\$-	\$750,642,556
Cumulative Disbursements	\$22,073,333,204	\$39,817,968	\$22,113,151,172

Charged Off Loans

Balance as of 1998	\$1,979,748,243	\$1,936,933	\$1,981,685,176
1999 Loan Principal	\$167,296,277	\$-	\$167,296,277
1999 Judgment Principal	\$2,137,269	\$-	\$2,137,269
1999 Other Receivables	\$422,851	\$-	\$422,851
Cumulative Charged Off Loans	\$2,149,604,640	\$1,936,933	\$2,151,541,573

Recoveries

Balance as of 1998	\$154,850,857	\$8,805	\$154,859,662
FY 1999	\$10,423,976	\$-	\$10,423,976
Cumulative Recoveries	\$165,274,833	\$8,805	\$165,283,638

Actual Net Losses

Cumulative Charged Off Loans Net of Cumulative Recoveries	\$1,984,329,807	\$1,928,128	\$1,986,257,935
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Actual Loss Rate (Actual Losses/Disbursements)	8.99%	4.84%	8.98%
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All Agency Programs	Direct/IP	Guaranteed	Program Total
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Disbursements

Balance as of 1998	\$28,400,985,572	\$90,186,808,416	\$118,587,793,988
FY 1999	\$761,643,326	\$8,306,997,061	\$9,068,640,387
Cumulative Disbursements	\$29,162,628,898	\$98,493,805,477	\$127,656,434,375

Charged Off Loans

Balance as of 1998	\$3,417,421,954	\$5,799,960,242	\$9,217,382,196
1999 Loan Principal	\$202,837,165	\$403,294,369	\$606,131,534
1999 Judgment Principal	\$16,095,468	\$18,067,169	\$34,162,637
1999 Other Receivables	\$12,641,506	\$10,577,166	\$23,218,672
Cumulative Charged Off Loans	\$3,648,996,093	\$6,231,898,947	\$9,880,895,039

Recoveries

Balance as of 1998	\$233,520,017	\$277,281,044	\$510,801,061
FY 1999	\$13,210,422	\$18,650,937	\$31,861,359
Cumulative Recoveries	\$246,730,439	\$295,931,981	\$542,662,420

Actual Net Losses

Cumulative Charged Off Loans Net of Cumulative Recoveries	\$3,402,265,654	\$5,935,966,966	\$9,338,232,620
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Actual Loss Rate (Actual Losses/Disbursements)	11.67%	6.03%	7.32%
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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 minor 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 1999 on the following pages.

Other Program Costs:

Total Non-Recoverable Expenses and Net Losses on ColPur in FY 1999

	* Gen. Business	Local Dev	SBIC	Disaster	Total
Total Non-Recoverable Expenses	\$0	\$22	\$0	\$0	\$22
GAINS					
Gain on Sale of ColPur	\$3,507,289	\$153,006	\$107,200	\$1,111,277	\$4,878,772
Income Earned on Assets Acquired	\$0	\$0	\$0	\$0	\$0
Gross Gains on ColPur	\$3,507,289	\$153,006	\$107,200	\$1,111,277	\$4,878,772
LOSSES					
Loss on Sale of ColPur	\$13,869,006	\$1,446,822	\$693,557	\$2,092,781	\$18,102,165
Expenses Incurred on Assets Acquired	\$2,789	\$0	\$0	\$0	\$2,789
Gross Losses on ColPur	\$13,871,795	\$1,446,822	\$693,557	\$2,092,781	\$18,104,955
Net Gain (Loss) on ColPur	(\$10,364,506)	(\$1,293,816)	(\$586,357)	(\$981,504)	(\$13,226,182)
Total Additional Program Costs	\$10,364,506	\$1,293,838	\$586,357	\$981,504	\$13,226,204

*The following loan programs are included: 7(a), 8(A), Economic Opportunity, Small Business Energy, Handicap Assistance, Veterans, Pollution Control, and Import Export.

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.

Asset Sales

SBA conducted its first asset sale during FY 1999 selling approximately 4,000 loans.

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 non-recoverable 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.

Recoveries

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