



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

June 4, 2015

The Honorable Andy Barr  
Member, U.S. House of Representatives  
2709 Old Rosebud Road, Suite 100  
Lexington, Kentucky 40509

Dear Representative Barr:

Thank you for your follow-up inquiry on behalf of Ms. Ann Beckham of Traditional Bank (TB) regarding a U.S. Small Business Administration (SBA) guaranteed loan to Cannon Equipment Rental and Supply, Inc. (CERS).

Traditional Bank has expressed concerns over SBA's calculation of the amount of the proposed denial of liability as well as other factors related to the case in question.

This case was originally reviewed by the SBA National Guaranty Purchase Center (NGPC), who found an issue with the liquidation of the collateral and recommended a full denial of the loan. The SBA NGPC's review found that the lender allowed the borrower to self-liquidate and obtained \$140,589.09 from the sales proceeds. The review also noted that the borrower used \$9,113.57 of those proceeds to apply to the TB loan, and therefore that amount should not be considered as part of the denial. The difference, \$131,475.52, was the amount recommended as the denial portion. However this was greater than the outstanding gross balance on the loan, \$106,824.71. Therefore the SBA NGPC recommended a full denial of liability. The letter from the SBA NGPC to Traditional Bank explained that it was seeking recovery of SBA's share of the balance (\$80,118.53) of the loan along with interest that was paid to the secondary market investor.

The case was then reviewed by the SBA NGPC's Quality Control department. This review upheld the recommendation by the SBA NGPC. Since TB did not agree with the findings of the SBA NGPC, the file was sent to the SBA Office of Financial Program Operations (OFPO) at SBA Headquarters for a higher authority review.

Upon arrival in the SBA OFPO, the analyst assigned to the case found that the issues noted by the SAB NGPC were substantially correct and sent a letter to TB requesting repayment of the funds, \$80,118.53 for SBA's share of the outstanding balance and \$790.39 for interest paid to the secondary market investor, for a total of \$80,908.74. After a review of additional information, it was found that some of the proceeds in question were actually used to pay creditors with superior liens. The gross repair

amount was then reduced from the original \$131,475.52 to \$97,074.33. A new letter was sent to Traditional Bank on April 20, 2015 explaining that SBA was seeking recovery of \$72,805.75 representing SBA's share of the revised repair amount.

The underlying issue in this case is that the lender failed to protect collateral proceeds that should have been used to reduce the outstanding balance of the loan in question. The borrower's Offer in Compromise agreement and the other two loans being paid off have no relevant correlation to this issue. The SBA OFPO has given consideration for the documentation provided showing liens that should have been in a superior position to the loan in question.

As stated in our previous letter, the SBA OFPO has thoroughly reviewed the case and is recommending a partial denial for the actions taken by the lender which resulted in material harm to SBA, as noted above. Since this loan was purchased from the secondary market, SBA is seeking repayment in the amount of \$72,805.75, representing TB's share of the liquidation deficiencies. The SBA OFPO has already obtained an opinion from the SBA Office of General Counsel, which concurs with the findings. The final approval of the authority to litigate will be made by the SBA Associate Administrator for Capital Access, pursuant to authority specifically delegated by SBA's Administrator. The SBA has not yet sought this approval, and will provide TB a final opportunity to reimburse SBA for the loan.

We appreciate your support of SBA and the Kentucky small business community. If you or your staff has any questions, please contact the SBA Office of Congressional and Legislative Affairs at (202) 205-6700.

Sincerely,

Jihoon Kim  
Acting Director  
Office of Financial Program Operations