

The Honorable Roy Blunt  
United States Senator  
308 East High Street, Suite 202  
Jefferson City, Missouri 65101

Dear Senator Blunt:

Thank you for your recent correspondence on behalf of Mr. Jerry Sitton, who has requested that the U.S. Small Business Administration (SBA) change the collateral requirements on his disaster loan and increase the amount of the loan.

SBA's policy establishes collateral requirements based on a balance between protection of the Agency's interest as a creditor and as a provider of disaster assistance. The Agency reserves the right to determine the best available collateral and to require that collateral to secure the loan. Our reason for this policy is that the use of real property as collateral tends to result in greatly reduced losses to the Federal government and taxpayers.

By way of background, on August 31, 2011, SBA approved Mr. Sitton's disaster loan for \$457,700 to repair two damaged properties. Through various loan modifications, we reduced Mr. Sitton's loan to \$370,900 due to insurance recovery. We required the two damaged properties valued at \$350,000 for collateral. Because this was not enough to secure the loan, SBA also required a condominium valued at \$150,000.

On March 12, 2012, Mr. Sitton submitted a request to remove the condominium as collateral. We declined his request on May 1, 2012, because Mr. Sitton did not provide any documentation to support his claim that the damaged properties were enough to secure his loan. On May 9, 2012, Mr. Sitton submitted another request for a collateral change and included an appraisal for one of the damaged properties. We declined his second request on July 26, 2012. The appraisal Mr. Sitton provided was over 8 years old and we could not rely on its calculated value for a current fair market value of the property.

With respect to Mr. Sitton's request to increase his loan, he indicated it would cost more than we verified to rebuild his damaged properties and he submitted a request for an increase on January 27, 2012. SBA loan assistance is limited to repairing or replacing damaged property to pre-disaster condition, and cannot be used to pay for upgrades. With Mr. Sitton's request for an increase in his loan, he submitted a reconstruction project costing \$750,000 which included an additional 1,700 square feet in new space. Because his project included increasing the square footage of his properties, we considered it an upgrade and declined his increase request on February 27, 2012. On May 9, 2012, along with Mr. Sitton's request to change collateral, he

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submitted a request to replace the two damaged properties with one new building and a new construction proposal totaling \$430,000. This is within the amount we originally verified to rebuild Mr. Sitton's property. Therefore, Mr. Sitton now has enough available funds with insurance and SBA loan proceeds to rebuild his property.

We appreciate your continued support of the SBA Disaster Assistance Program. If you and your staff have additional questions, please contact the SBA Office of Congressional and Legislative Affairs at (202) 205-6700.

Sincerely,

James E. Rivera  
Associate Administrator  
for Disaster Assistance