February 19, 2013

The Honorable James E. Risch
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Senator Risch:

Thank you for your January 28, 2013, letter and for the opportunity to meet with you the prior week to discuss small business issues. Let me also congratulate you again on your new position as Ranking Member of the U.S. Senate Committee on Small Business and Entrepreneurship. I enjoyed our meeting and I am pleased to expand upon the important matters we discussed.

My responses to each of your questions regarding the U.S. Small Business Administration's (SBA) programs are set forth in the attachments to this letter.

If you have additional questions pertaining to the enclosed materials, please do not hesitate to have your staff contact Nicholas Coutsos, SBA Assistant Administrator for Congressional and Legislative Affairs, at (202) 205-6700.

Again, thank you for your support of the SBA and your leadership on small business issues. We look forward to partnering with you and the Committee to assist America's small businesses and to continue making the SBA more efficient and effective.

With warmest regards,

Karen G. Mills

SBA Responses to January 28, 2012 Letter from Senator Risch

1. *The current default rate on SBA loans, from FY07 to the present, broken out by 7(a), 504, Community Advantage, SBA Express, Patriot Express, and Microloans*

Below are the Agency's 12 Month Purchase Rates for the 7A, 504, SBA Express, and Patriot Express programs for Fiscal Years 2007 through 2012. SBA believes that purchase rates are a more accurate indicator of loan performance than default rates because these are guaranteed loan programs, not direct loan programs. When a lender determines a loan is in default, it requests a purchase package from SBA, and once this occurs the agency considers the loan purchased. Loans in our Community Advantage initiative are new, so we do not have relevant performance data at this point. We have also included default rate information for our Microloan program, under which SBA makes direct loans to Community Based non-profits which, in turn, use the proceeds to make direct unguaranteed microloans to small businesses.

7A Purchase Rates

- FY 2007: 1.9%
- FY 2008: 3.3%
- FY 2009: 6.6%
- FY 2010: 7.3%
- FY 2011: 4.4%
- FY 2012: 3.1%

504 Purchase Rates

- FY 2007: 0.8%
- FY 2008: 1.6%
- FY 2009: 4.0%
- FY 2010: 6.3%
- FY 2011: 2.8%
- FY 2012: 3.4%

SBA Express Purchase Rates

- FY 2007: 2.9%
- FY 2008: 5.0%
- FY 2009: 9.8%
- FY 2010: 11.2%
- FY 2011: 7.8%
- FY 2012: 5.1%

Patriot Express Purchase Rates

- FY 2009: 1.9%
- FY 2010: 4.7%
- FY 2011: 5.0%
- FY 2012: 4.3%

Microloan Program Default Rates (Loans to Intermediaries)

- FY 2007: 0.24%
- FY 2008: 0.07%
- FY 2009: 2.35%
- FY 2010: 1.83%
- FY 2011: 1.30%
- FY 2012: 0.65%

2. *The current default rate on conventional small business loans*

Please see the chart in Appendix I (entitled “Benchmarking SBA Purchase Rates to the Market”) for a quarterly comparison between SBA 7(a) loans and conventional small business loans. The chart compares private sector “Commercial and Industrial” loan charge-off rates compiled by the Federal Reserve Board (FRB) and SBA 7(a) purchase rates, which we believe best illustrate default rates in the public and private small business lending markets. Note that the chart also includes charge-offs from consumer credit cards, another financing tool often utilized by small businesses.

3. *The default rate on SBA disaster loans, broken out by disaster, from Katrina to the present*

Annual Default Rates* for SBA Disaster Loans (as of 12/31/2012, with major disasters broken out)

Cohort/Largest Disasters	Default Rate	Total Disbursement	Principal Charged Off
2006 Total	**10.37%**	**6,234,973,485**	**646,618,423**
- Katrina	8.94%	5,577,770,999	498,677,835
- Rita	11.97%	525,298,698	62,884,562
- Wilma	18.54%	560,180,324	103,875,243
2007 Total	**8.67%**	**951,478,973**	**82,515,695**
2008 Total	**8.28%**	**519,308,615**	**42,992,302**
2009 Total	**6.05%**	**570,866,860**	**34,550,782**
- Gustav	8.69%	73,865,418	6,417,410
- Ike	4.91%	315,764,035	15,501,931
2010 Total	**3.25%**	**366,184,586**	**11,913,593**
- BP Oil Spill	0.69%	35,317,200	245,104
2011 Total	**1.29%**	**381,766,457**	**4,914,297**
2012 Total	**0.27%**	**343,079,512**	**941,954**
- Irene	0.48%	128,970,539	618,384

*Defined as total principal charged off as a percent of total disbursement amount

4. *Data on how much of disaster losses tend to be covered by insurance*

SBA does not specifically track that information, since the amount of a disaster loan is based on the victim's uncompensated (i.e., uninsured) loss. Any insurance or other recoveries (e.g., grants) received are subtracted from the eligible loan amount.

However, there is publicly available information on total insured loss by disaster. For example, Hurricane Katrina had $41.1 billion in insured loss, Hurricane Wilma had $10.3 billion, Hurricane Rita had $5.627 billion, and Hurricane Ike had 12.5 billion in insured loss. [1] We have not seen official numbers on the insured loss for Hurricane Sandy, but have heard anecdotally that it could be $50 billion.

5. *Information on what percentage of disaster loan disbursements are repaid from insurance proceeds*

SBA does not currently track that information. However, SBA is examining whether and how this information could be tracked in the future.

6. *The SBA's policy on the treatment of insurance requirements and proceeds, including flood insurance, in the disaster loan program*

In general, prior to loan disbursement SBA will reduce the approved loan amount for any insurance payment that covers the same loss as the SBA loan. Following disbursement of the SBA loan, any insurance recovery is applied directly to the SBA loan to reduce the outstanding principal balance.

There are a number of insurance requirements for SBA loan recipients. For instance, SBA requires hazard insurance on all secured loans to protect the damaged (real and personal) property, as well as all insurable collateral (i.e., non-damaged real estate, inventory, business assets such as machinery and equipment). Additionally, if damaged or collateral property is located in a Special Flood Hazard Area (SFHA), SBA requires the property to be covered by flood insurance before any loan disbursement. And if property located outside an SFHA was damaged by rising water, SBA requires flood insurance on the damaged property prior to disbursement in excess of certain thresholds, typically $14,000.

[1] Property coverage only. Does not include flood damage covered by the federally administered National Flood Insurance Program. As of September 2009.
Source: ISO's Property Claim Services unit (PCS); See http://www.iii.org/facts_statistics/hurricanes.html.

Additionally, SBA reviews all disaster loan applications to determine whether any previously required flood insurance on the property was maintained. If required flood insurance was not maintained in accordance with applicable laws, the applicant is not eligible for SBA disaster assistance.

7. *Clarification on the treatment of the disaster loans in bankruptcy proceedings*

SBA loans, disaster or otherwise, are not afforded any unique or special treatment under the Bankruptcy Code. Accordingly, SBA loans are dischargeable just like any typical loan to a debtor from a non-governmental lender, subject to any and all applicable defenses to which the SBA may be entitled.

8. *The supporting data and information on your comment that it is less expensive for the Federal government to do business with small businesses than large businesses in contracting*

While there is no definitive data on cost savings with regard to small business federal contracting, there are a number of benefits to the federal government's small business contracting programs and the statutory 23% goal. Small business contracting is a win-win. Small businesses get the revenue they need to grow their businesses and create jobs. Meanwhile, the federal government gets the chance to work with some of the most responsive, innovative and nimble companies in the US—often with a direct line to their CEO. As your counterpart, Chairman Sam Graves of the House Small Business Committee, stated in an Op-Ed in *Politico*, "[Small businesses] can perform a service or produce goods for the government at a lower rate and often more quickly than their larger counterparts."