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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

April 7, 2008

The Honorable Steven C. Preston
Administrator
U.S. Small Business Administration
409 Third Street, S.W.
Washington, D.C. 20416

Dear Administrator Preston:

Last week I wrote to you and asked if you would delay publishing a notice in the Federal Register that would interfere with the liquidation of defaulted 504 loans. The notice is controversial, and I wanted to work with you to pursue what I believed, in talking to the SBA and the SBA's lending partners, would be a better solution to address your lack of funding for reimbursements and the overall liquidation problem. Unfortunately, you went forward and published the notice despite my objections.

Because the underlying problem was caused by the SBA's accounting error, I have a hard time understanding why the Administration has refused the Committee's suggestion to seek a reprogramming or amend its budget request in order to correct the agency's own mistake. Moreover, preservation of the 504 liquidation reimbursement program will save the SBA money in the long run. If SBA estimates it will need about \$2 million for reimbursements, that seems like a wise investment as opposed to continuing with the current liquidation system in which SBA has let more than 200 of the almost 1,000 defaulted loans languish for so long that, in SBA's words, there is "little or no remaining residual value" to recover, and therefore expects to charge them off. The Committee has been told those loans are worth as much as \$100 million. If the reimbursements were to continue, and CDCs were to continue to liquidate loans, even if they recovered a mere \$4 million, the SBA would still be ahead.

Please provide the Committee with the total number and dollar amount of 504 loans to be charged off and how that will affect the subsidy rate and fees on the borrowers and lenders who pay to participate in the 504 Loan Guaranty Program.

Please also provide the Committee with the estimated funding SBA would need to continue the reimbursements instead of permanently suspending the practice, and explain

The Honorable Steven C. Preston

April 7, 2008

Page 2

why you will not pursue the funding in order to reimburse CDCs for their liquidation efforts and help protect the SBA's 504 loan program.

I ask that you please provide the Committee with a response by Monday, April 14, 2008.

Sincerely,

A handwritten signature in blue ink, appearing to read "John F. Kerry". The signature is stylized and cursive, with a large initial "J" and "K".

John F. Kerry
Chairman