

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

April 29, 2002

The Honorable Hector V. Barreto
Administrator
U.S. Small Business Administration
409 Third Street, SW
Washington, D.C. 20416

Re: Agency Initiative to Guarantee Pools of Conventional Business Loans

Dear Mr. Administrator:

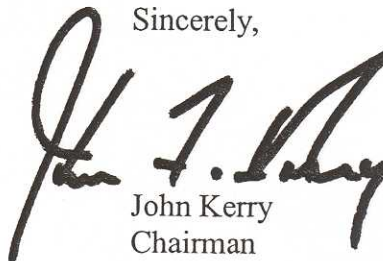
Based on trade press and a March 20th meeting between the Agency and SBA lenders, I understand that you are developing a new program to guarantee pools of conventional business loans. I am interested in finding out more about your plans and request that you please provide the Committee with the following information:

- 1) A thorough explanation of why such a program is necessary, including what lending gap it would fill.
- 2) An explanation of how it would benefit small businesses.
- 3) A description of how the program would work, including the size and type of loans that would be eligible for pooling, fees that would be assessed of and by various parties, and who would be "paid" by the fees, such as underwriters, poolers, SBA or the Treasury.
- 4) A description of what safeguards will be put in place to ensure that the pooling process would aid small businesses only, and for legitimate business purposes.
- 5) An explanation of whether or not the new program would be subject to the same borrower eligibility requirements as other SBA loan programs, including credit standards, the credit-elsewhere test, collateral requirements, business size standards, owner equity injection, requirements that the owner occupy the majority of any leased space, non-U.S. citizen restrictions, and franchise requirements. Given those issues, an explanation of how the SBA field office staff would assure program management that a loan placed into a pool meets all those requirements.

- 6) An evaluation of the anticipated impact of such a new program upon existing SBA loan programs, including pros and cons and whether high-quality financings such as large real estate loans would be shifted to the new program.
- 7) The anticipated subsidy rate for the program, as well as the methodology the Agency is planning to use to determine the subsidy rate
- 8) The projected effects, if any, of such a program on the overall subsidy rates of the 7(a) and 504 programs.
- 9) An explanation of how the new program would be funded, including a discussion of the anticipated appropriation necessary for the program, the year for which you would request the first appropriation, and the program size such an appropriation would support.
- 10) A discussion of the staffing requirements for such a program, including an identification of which offices in SBA would be involved in managing the program.
- 11) Any opinion letter by the General Counsel's office as to whether this proposal would require legislation or whether the Agency has statutory authority to proceed. If it is the General Counsel's opinion that it does not require legislation, or if there is no General Counsel opinion on the concept, please cite the specific provisions of the Small Business Act on which the Agency is relying if it intends to proceed with implementation without legislation.
- 12) A schedule detailing your implementation plan, including notification of the public and Congress.

Thank you for your attention to this request. It is my expectation that SBA will not proceed with implementation of this new program until the Committee has received a response to this letter and an oral briefing of Committee staff has occurred. Please provide the Committee with a response by May 13, 2002.

Sincerely,



John Kerry
Chairman