

NOTE 2. FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. SBA's cash receipts are deposited to accounts at the Treasury. SBA's fund balances with the Treasury are available to make expenditures, except for expired year amounts. Separate records are maintained for SBA's program, financing, liquidating and other accounts. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Appropriated Funds	\$ 1,781,718	\$ 1,043,015
Financing Funds	2,029,367	4,971,495
Liquidating Funds	38,394	53,592
Revolving Fund	30,994	27,027
Trust Fund	278	310
Total Entity Fund Balance with Treasury	3,880,751	6,095,439
Non-Entity Fund Balance	4	4
Total Fund Balance with Treasury	\$ 3,880,755	\$ 6,095,443
Status of Fund Balance with Treasury		
Unobligated Balance Available	\$ 1,362,816	\$ 2,130,526
Unobligated Balance Unavailable	1,614,003	3,170,618
Obligated Balance Not Yet Disbursed	903,932	1,413,995
Borrowing Authority Not Converted to Funds		(619,700)
Nonbudgetary	4	4
Total Fund Balance with Treasury	\$ 3,880,755	\$ 6,095,443

Unobligated balances become available when apportioned by the OMB for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3. CASH

The SBA field offices deposit collections from borrowers in the Treasury General Accounts at financial institutions for credit to SBA's account at the Treasury. Collections temporarily held by the SBA offices pending deposit at the end of the fiscal year are recorded as Undeposited Collections – Cash in Transit and total \$3.9 million and \$17.1 million at September 30, 2008 and 2007. The \$17.1 million in FY 2007 resulted from increased receipts for Gulf Coast hurricane loans that were processed in early 2008.

NOTE 4. MASTER RESERVE FUND

When Congress enacted the Small Business Secondary Market Improvement Act of 1984, it authorized the SBA to guarantee the timely payment of principal and interest on trust certificates representing an ownership interest in a pool of the guaranteed portions of the SBA 7(a) loans. The SBA provides the guaranty through the Secondary Market Guaranty program. The program encompassed \$14.9 billion and \$14.1 billion of outstanding trust certificate principal at September 30, 2008 and 2007. The guaranty of timely payment on trust certificates is distinct from the guaranty against default on the underlying 7(a) loans. The SBA established the Master Reserve Fund to facilitate the operation of the SMG program. The MRF is an account through which all payments from the underlying 7(a) loans and remittances to trust certificate investors flow.

The cost of the SMG program depends on several factors, including the difference in the maturity terms of the trust certificates and underlying 7(a) loans, the cash flow performance of the underlying loans and the spread between trust certificate coupon rates and yields available on Treasury investment instruments. Estimates for the cash flow performance of the 7(a) loans underlying the SMG pools are derived directly from the 7(a) subsidy model.

In the SMG program, each trust certificate is typically backed by loans with a range of maturity terms. Because the trust certificate takes on the maturity of the longest-term underlying loan, it amortizes more slowly than most of its underlying loans. As a result, loan payments that will ultimately be paid out to the trust certificate holders temporarily accumulate in the MRF. Typically, the investment rate earned on these accumulated funds is less than the coupon rate that must be paid to trust certificate holders; this negative spread is the primary source of the cost of the SMG program. The magnitude of the cost depends on how long the temporary accumulation of funds in the MRF persists and on the size of the spread. The costs are offset by interest earned on loan payments and prepayments that are temporarily held in the MRF before being disbursed to certificate holders.

The cost of the SMG program's timely payment is being accounted for under the requirements of the Federal Credit Reform Act of 1990. Also, the cost of the SMG program is reestimated annually and included in SBA's financial statements. The SBA changed some aspects of the program beginning in FY 2005 to achieve a zero subsidy cost for the SMG. Changes included expediting the pass-through of partial prepayments and no longer retaining in the MRF the principal portion of the first payment on newly issued trust certificates. Both of these changes served to reduce the accumulation of funds in the MRF, where they would earn a lower investment return than the coupon rate payable to trust certificate holders. See Note 6I for a further discussion of this topic.

The MRF balance is invested entirely in the Treasury securities and repurchase agreements backed by the Treasury securities. MRF investments are managed by SBA's fiscal transfer agent, with oversight provided by SBA's MRF Investment Committee. MRF assets are fiduciary in nature and are held outside of the Treasury. In accordance with current federal reporting standards, they do not appear in the principal financial statements of the SBA.

The composition of the MRF and a reconciliation of the changes in MRF assets are included in the following table:

MASTER RESERVE FUND ASSETS

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Short Term Securities		
Money Market Funds	\$ 9,300	\$ 52,975
Treasury Bills	193,354	99,805
Repurchase Agreements	222,078	395,000
Total Short Term Securities	424,732	547,780
Long Term Securities		
Treasury Notes Including Interest	1,467,158	1,334,153
Total Long Term Securities	1,467,158	1,334,153
Net Assets	\$ 1,891,890	\$ 1,881,933

RECONCILIATION OF MRF ASSETS

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Beginning Net Assets	\$ 1,881,933	\$ 1,805,812
Receipts		
Loan Payments from Borrowers	1,581,862	1,765,357
Prepayments and Default Payments	2,814,968	3,583,241
Earned Income	72,757	81,114
Net Realized Gain (Loss)	4,204	(11,341)
Total Receipts	4,473,791	5,418,371
Less Disbursements		
Payments to Investors	4,461,084	5,339,331
Expenses	2,750	2,919
Total Disbursements	4,463,834	5,342,250
Ending Net Assets	\$ 1,891,890	\$ 1,881,933

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed to the SBA by the public. Amounts due from the public are presented net of an allowance for uncollectible Surety Bond Guarantee Program receivables. This allowance is based on an analysis of the aging of the delinquent outstanding balances. The uncollectible or unrecoverable amounts for Guaranty Fees Receivable and Refunds are not significant and no allowance is provided.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Public		
Guaranty Fees Receivable	\$ 21,620	\$ 32,715
Refunds	4,486	3,718
Other	11,284	11,045
Total Public	37,390	47,478
Allowance For Loss	(2,862)	(4,000)
Net Public	\$ 34,528	\$ 43,478

NOTE 6. CREDIT PROGRAM RECEIVABLES AND LIABILITY FOR LOAN GUARANTIES

A. Loan Program Descriptions and Cost Determinations

Loan Program Descriptions

The SBA administers guaranteed and direct loan programs that help small businesses obtain financing, and a direct loan program that assists homeowners, renters and businesses to recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Business	Guaranteed	7(a) Loan Guaranty
Business	Direct	7(m) Microloan
Business	Guaranteed	504 Certified Development Company
Business	Guaranteed	Small Business Investment Company Debenture
Business	Guaranteed	Small Business Investment Company Participating Securities
Business	Guaranteed	Secondary Market Guaranty
Disaster	Direct	Disaster Assistance Loans

SBA's business loan programs include its flagship 7(a) Loan Guaranty Program in which the SBA guarantees up to 90 percent of the principal amount of loans made by banks and other lending institutions to small businesses not able to obtain credit elsewhere. The Section 504 Certified Development Company Program guarantees principal and interest payments on

debentures issued by development companies that make small business loans secured primarily by real estate. The Small Business Investment Company Debentures and Participating Securities Programs guarantee principal and interest payments on securities issued by investment capital firms, which in turn make investments in small businesses. The 7(m) Microloan Program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to \$35,000 to eligible small businesses. See Note 4 for further discussion of the Secondary Market Guaranty.

SBA's Disaster Assistance Loan Program makes direct loans to disaster victims under four categories: (1) loans for homes and personal property, (2) physical disaster loans to businesses of any size, (3) economic injury loans to small businesses without credit available elsewhere and (4) economic injury loans to eligible businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for home loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

Credit Program Receivables and Liabilities for Loan Guaranties

The Federal Credit Reform Act of 1990 governs direct loans made after FY 1991. FCRA loans are valued at the present value of expected future cash flows, discounted at the interest rate of marketable Treasury securities. The subsidy allowance account represents the difference between the outstanding loan receivables balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance.

The FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's balance sheet. The liability is determined by calculating the net present value of expected future cash flows for outstanding guaranties in a manner similar to that used to determine the subsidy allowance for direct loans. Guarantied loans purchased by the SBA upon borrower default are established as loan receivables and are valued in a similar manner as direct loans under the FCRA.

Direct loans made prior to the FCRA are recorded at cost with an allowance for uncollectible amounts calculated using historical loss experience. For loan guaranties made prior to the FCRA, a liability for expected future losses on outstanding guaranties is established based on historical experience. Guarantied loans purchased upon borrower default are established as loan receivables with an allowance for losses based on historical loss experience.

The SBA advances payments semiannually to the Federal Financing Bank for loans guarantied under Section 503 of the Small Business Act. The advances are liquidated by receipt of the installment payments on loans made by state and local development companies. To the extent that those installments may not repay advances, balances from development companies that remain collectible are reported as credit program receivables.

Advances are similarly made to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's Section 504 Certified Development Company and Small Business Investment Company Programs. These advances are also reported as credit program receivables.

Subsidy Funding under Federal Credit Reform

The FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans approved is termed the subsidy rate. The SBA receives appropriations annually to fund its credit programs based on that subsidy rate applied to the credit program level approved by the Congress. Then, when loans are disbursed, the SBA records subsidy expense. In accordance with the FCRA, subsidy costs are reestimated annually.

Interest Receivable

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guaranteed loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on non-performing loans in excess of 90 days delinquent. Purchased interest is carried at cost. A 100 percent loss allowance is established for all purchased interest on non-performing loans made prior to FY 1992.

Foreclosed Property

Foreclosed property is comprised of real and business-related property acquired through foreclosure of loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. SBA's foreclosed property inventory has declined in recent years as SBA's lending partners have assumed more of the liquidation responsibilities. At September 30, 2008 SBA's foreclosed property was \$24.3 million related to 71 loans. The properties had been held for an average of 1,076 days. At September 30, 2007 foreclosed property was \$14.3 million related to 62 loans. The properties had been held for an average of 1,232 days.

Valuation Methodology for Post-1991 Direct Loans and Loan Guaranties

Direct and guaranteed loans committed after FY 1991 are based on the net present value of their expected future cash flows. The SBA estimates future cash flows for guaranteed and direct loans using economic and financial credit subsidy models. The SBA has developed a customized credit subsidy model for each of its major loan guaranty and direct loan programs.

SBA's models vary in the specific methodologies they employ to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure. Nominal cash flow forecasts are discounted using the Office of Management and Budget's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data used as the basis for program performance assumptions is drawn primarily from data systems maintained by the SBA and its contractors. The historical data undergoes quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models vary by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity and grace period
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates, and recovery rates
- Loan fee rates

Valuation Methodology for Pre-1992 Direct Loans and Loan Guaranties

The SBA values pre-credit reform direct and defaulted guaranteed loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and defaulted guaranteed loans that are past due more than 180 days.

A liability is also established for active pre-credit reform loan guaranties. The liability is estimated based on historical experience.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2008	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 28,253	\$ 114,620	\$ 142,873
Interest Receivable	2,325	1,299	3,624
Foreclosed Property	3,104		3,104
Allowance	(1,741)	(26,378)	(28,119)
Total Direct Business Loans	31,941	89,541	121,482
Direct Disaster Loans			
Disaster Loans Receivable	16,595	8,609,972	8,626,567
Interest Receivable	121	35,649	35,770
Foreclosed Property		999	999
Allowance	(978)	(1,574,082)	(1,575,060)
Total Direct Disaster Loans	15,738	7,072,538	7,088,276
Defaulted Guaranteed Business Loans & Other Loan Receivables			
Defaulted Guaranteed Business Loans	56,127	3,510,385	3,566,512
Other Loans Receivable (see note below)		627,007	627,007
Interest Receivable	458	14,453	14,911
Foreclosed Property	3,467	16,701	20,168
Allowance	(29,288)	(2,886,127)	(2,915,415)
Total Defaulted Guaranteed Business Loans & Other Loan Receivables	30,764	1,282,419	1,313,183
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 8,522,941

AS OF SEPTEMBER 30, 2007	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 23,305	\$ 122,463	\$ 145,768
Interest Receivable	1,527	1,050	2,577
Foreclosed Property	3,293		3,293
Allowance	(4,375)	(11,019)	(15,394)
Total Direct Business Loans	23,750	112,494	136,244
Direct Disaster Loans			
Disaster Loans Receivable	21,620	8,966,313	8,987,933
Interest Receivable	161	40,864	41,025
Foreclosed Property		944	944
Allowance	(2,474)	(1,563,019)	(1,565,493)
Total Direct Disaster Loans	19,307	7,445,102	7,464,409
Defaulted Guaranteed Business Loans & Other Loan Receivables			
Defaulted Guaranteed Business Loans	73,855	3,204,640	3,278,495
Other Loans Receivable (see note below)		697,802	697,802
Interest Receivable	2,855	16,625	19,480
Foreclosed Property	3,594	6,495	10,089
Allowance	(33,597)	(3,235,460)	(3,269,057)
Total Defaulted Guaranteed Business Loans & Other Loan Receivables	46,707	690,102	736,809
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 8,337,462

Note: Other Loan Receivables include payments advanced by the SBA against future reimbursements in the SBIC and 504 Guaranty Programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ending September 30,	2008	2007
Business Direct Loan Program	\$ 16,429	\$ 16,426
Disaster Loan Program	860,629	3,268,258
Total Direct Loans Disbursed	\$ 877,058	\$ 3,284,684
Outstanding Loan Obligations as of September 30,	2008	2007
Business Direct Loan Program	\$ 25,576	\$ 25,238
Disaster Loan Program	468,200	1,037,396
Total Direct Loan Obligations	\$ 493,776	\$ 1,062,634

GUARANTIED LOANS

New Loans Disbursed During the Year Ending September 30,	2008	2007
Total Principal Disbursed at Face Value	\$ 18,152,218	\$ 19,068,952
Total Principal Disbursed Guaranteed by the SBA	14,685,373	15,121,280
Outstanding Loan Obligations as of September 30,	2008	2007
Business Guaranteed Loan Programs	\$ 11,335,863	\$ 13,193,002
Loans Outstanding as of September 30,	2008	2007
Total Principal Outstanding at Face Value	\$ 75,088,280	\$ 71,530,436
Total Principal Outstanding Guaranteed by the SBA	61,709,613	58,413,188

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Post-1991 Business Direct and Purchased Guaranteed Loans		
Beginning Balance of Allowance Account	\$ 3,246,479	\$ 3,140,440
Current Year's Subsidy (see 6G for breakdown by component)	1,579	1,408
Loans Written Off	(1,420,426)	(539,195)
Subsidy Amortization	(2,521)	(3,153)
Allowance Related to Guaranteed Loans Purchased This Year	1,032,790	598,852
Miscellaneous Recoveries and Costs	42,351	55,503
Balance of Subsidy Allowance Account before Reestimates	2,900,252	3,253,855
Technical Assumptions/Default Reestimates	12,253	(7,376)
Ending Balance of Allowance Account	\$ 2,912,505	\$ 3,246,479
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	\$ 1,563,019	\$ 1,400,200
Current Year's Subsidy (see 6G for breakdown by component)	141,716	500,002
Loans Written Off	(331,081)	(106,920)
Subsidy Amortization	(37,692)	(52,646)
Miscellaneous Recoveries and Costs	28,020	14,923
Balance of Subsidy Allowance Account before Reestimates	1,363,982	1,755,559
Technical Assumptions/Default Reestimates	210,100	(192,540)
Ending Balance of Allowance Account	\$ 1,574,082	\$ 1,563,019

E. Loan Guaranty Liability Balances

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	\$ 1,113	\$ 1,042
Adjustment to Expected Losses, Guaranties Outstanding	(297)	71
Ending Balance of Liability for Loan Guaranties	816	1,113
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	1,736,747	1,629,779
Current Year's Subsidy (see 6G for breakdown by component)	3,270	3,390
Fees	654,399	639,171
Interest Accumulation Factor	(1,483)	49,140
Claim Payments to Lenders	(2,111,223)	(1,008,738)
Adjustment Due to Reestimate & Guaranteed Loan Purchases	1,078,433	409,886
Miscellaneous Recoveries and Costs	39,774	45,685
Balance of Liability for Loan Guaranties before Reestimates	1,399,917	1,768,313
Technical Assumptions/Default Reestimates	424,818	(31,566)
Ending Balance of Liability for Loan Guaranties	1,824,735	1,736,747
Total Ending Balance of Liability for Loan Guaranties	\$ 1,825,551	\$ 1,737,860

F. 2008 Subsidy Rates by Program and Component

LOAN PROGRAMS	Financing	Default	Fees	Other	Total Rate
Direct Loan Programs					
Microloan	8.37%	-0.05%		1.80%	10.12%
Disaster Loan	11.47%	10.25%		-5.45%	16.27%
Guaranty Business Loan Programs					
7(a)		3.37%	-3.37%		0.00%
504 CDC		1.71%	-2.05%	0.34%	0.00%
SBIC Debenture		7.17%	-7.20%	0.03%	0.00%

The subsidy rates in Table F above pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Table G result from the disbursement of loans obligated in the current year as well as in prior years, and includes reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Business Loan Guaranties		
Defaults	\$ 3,952	\$ 4,236
Fees	(679)	(849)
Other	(3)	3
Subsidy Expense Before Reestimates	3,270	3,390
Reestimates	424,817	(31,566)
Total Guaranteed Business Loan Subsidy Expense	\$ 428,087	\$ (28,176)
Business Direct Loans		
Interest	\$ 1,414	\$ 1,340
Defaults	6	27
Other	159	41
Subsidy Expense Before Reestimates	1,579	1,408
Reestimates	12,253	(7,376)
Total Business Direct Loan Subsidy Expense	\$ 13,832	\$ (5,968)
Disaster Direct Loans		
Interest	\$ 88,583	\$ 283,167
Defaults	84,837	310,722
Fees	(5)	(1)
Other	(31,699)	(93,886)
Subsidy Expense Before Reestimates	141,716	500,002
Reestimates	210,100	(192,540)
Total Disaster Direct Loan Subsidy Expense	\$ 351,816	\$ 307,462

H. Administrative Expenses

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are:

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Disaster Direct Loan Programs	\$ 204,991	\$ 267,799
Business Loan Programs	135,796	124,314
Total Administrative Expense	\$ 340,787	\$ 392,113

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2008 for all of SBA's large loan programs and with nine months of actual and three months of projected performance data for the Secondary Market and the small loan programs.

Business Guaranteed Loan Programs

Net Subsidy reestimates for Business Guaranteed Loan Programs follows:

(Dollars in Thousands)

Guaranteed Loan Program Subsidy Reestimates	2008	2007
7(a) Loan Guaranty	\$ 574,840	\$ 51,975
7(a) Star	7,273	(5,729)
504 CDC Debentures	484,921	(30,391)
SBIC Debentures	(158,402)	(101,878)
SBIC Participating Securities	(492,386)	50,537
Secondary Market Guaranty Program	10,196	1,784
All Other Guaranty Loan Programs	(1,625)	2,136
Total Guaranteed Loan Program Subsidy Reestimates	\$ 424,817	\$ (31,566)

The 7(a) Loan Guaranty Program, SBA's flagship and largest program, had the largest net upward reestimates for the guaranteed business loan programs in FY 2008. The net upward reestimates of \$574.8 million were mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

The 504 Certified Development Companies Program had net upward reestimates of \$484.9 million that was also mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

The performance of SBA's venture capital programs continued to improve into FY 2008. The SBIC Participating Securities and the SBIC Debentures programs had net downward reestimates of \$492.4 million and \$158.4 million, respectively. The downward reestimates for those programs are due to a reduction in projected purchases and an increase in actual and projected recoveries in the remaining performance years within the cohorts based on additional actual performance data.

The \$10.1 million net upward reestimate in FY 2008 for the Secondary Market Guaranty program was because the 2005 through 2007 cohorts had upward reestimates. The upward reestimate for those cohorts are primarily the result of lower than projected returns from investments in Treasury securities within the Master Reserve Fund during FY 2008 and, based on mid-session economic assumptions, lower projected returns in the future.

Business Direct Loan Programs

The 7(m) Direct Microloan program had the most significant reestimates for SBA's Direct Business Loan Programs for FY 2008. That program had \$13.2 million in net upward reestimates because of an increase in actual and projected defaults of loans to Micro Lenders.

Subsidy reestimates for Business Direct Loan Program follow:

(Dollars in Thousands)

Business Direct Loan Program Subsidy Reestimates	2008	2007
7(m) Microloan	\$ 13,199	\$ 4,568
SBIC Preferred Stock	(944)	(11,797)
All Other Direct Loan Programs	(2)	(147)
Total Direct Loan Program Subsidy Reestimates	\$ 12,253	\$ (7,376)

Disaster Direct Loan Programs

Subsidy reestimates for disaster direct loan programs follow:

(Dollars in Thousands)

Disaster Direct Loan Program Subsidy Reestimates	2008	2007
Disaster	\$ 208,430	\$ (185,134)
World Trade Center Disaster	1,670	(7,406)
Total Disaster Direct Loan Program Subsidy Reestimates	\$ 210,100	\$ (192,540)

The Disaster program had net upward reestimates of \$208.4 million primarily in the 2006 cohort that mostly consists of loans for the Gulf Coast hurricanes in 2005. Those loans currently account for about 60 percent of the outstanding portfolio of direct Disaster loans. The upward reestimates are primarily the result of performance probabilities being updated with actual performance during FY 2008 that resulted in an increase in projected defaults.

NOTE 7. GENERAL PROPERTY AND EQUIPMENT, NET

Equipment with a cost of \$50,000 or more per unit and a useful life of 2 years or more is capitalized at full cost and depreciated using the straight-line method over the useful life. Other equipment items not meeting the capitalization criteria are expensed when purchased.

Leasehold improvements with modifications of \$50,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Other leasehold improvement expenditures not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed or purchased, is capitalized at cost if the initial unit acquisition cost is \$250,000 or more and service life is at least 2 years. Costs that do not meet the capitalization criteria are expensed when incurred.

Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the system is put into operation. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities.

Assets meeting the capitalization thresholds established, at September 30, 2008 and 2007 are detailed below.

(Dollars in Thousands)

	2008	2007
Equipment	\$ 1,787	\$ 118
Accumulated Depreciation	(357)	(12)
Net	<u>1,430</u>	<u>106</u>
Leasehold Improvements	1,496	
Net	<u>1,496</u>	
Software in Development	1,491	634
Software in Use	28,994	28,994
Amortization of Software in Use	(28,994)	(28,230)
Net	<u>1,491</u>	<u>1,398</u>
Total General Property and Equipment, Net	<u>\$ 4,417</u>	<u>\$ 1,504</u>

NOTE 8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. These unfunded liabilities as of September 30, 2008 and 2007 consisted of:

(Dollars in Thousands)

	2008	2007
Intragovernmental Liabilities - Other		
Employment Taxes Payable	\$ 4,117	\$ 6,507
Federal Employee Compensation Act Payable	6,005	5,718
Total Intragovernmental Liabilities - Other	<u>10,122</u>	<u>12,225</u>
Federal Employee Compensation Act Actuarial Liability	27,061	26,321
Surety Bond Guarantee Program Future Claims	24,764	23,588
Other Liabilities		
Prior Liens on Real Estate Payable	424	492
Accrued Unfunded Annual Leave	24,547	22,908
Total Other Liabilities	<u>24,971</u>	<u>23,400</u>
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 86,918</u>	<u>\$ 85,534</u>

The liability for the Surety Bond Guarantee Program is an estimate of future claims in the SBG Program for guaranties outstanding at year-end.

NOTE 9. DEBT

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations and to fund the payment of downward subsidy reestimates and other credit program disbursements (see

Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

Borrowings payable to the Federal Financing Bank are the result of its financing of the SBA Section 503 Debentures issued prior to 1988.

All debt is intragovernmental and covered by budgetary resources. Debt transactions for the periods ending September 30, 2008 and 2007 and resulting balances are:

Intragovernmental Debt

(Dollars in Thousands)

Department of Treasury	2008	2007
Beginning Balance	\$ 11,365,675	\$ 9,303,062
New Borrowing	865,663	4,291,445
Repayments	(2,768,456)	(2,228,832)
Ending Balance	\$ 9,462,882	\$ 11,365,675
Federal Financing Bank	2008	2007
Beginning Balance	\$ 17,513	\$ 27,320
Repayments	(6,943)	(9,521)
Change in Interest Payable	(225)	(286)
Ending Balance	\$ 10,345	\$ 17,513
Total Debt	\$ 9,473,227	\$ 11,383,188

NOTE 10. NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992. Subsequent to the issuance of its audited financial statements each year, the SBA returns to the Treasury the portion of this balance that is considered to be the unobligated balance for budgetary reporting at fiscal year-end.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Pollution Control Equipment Guaranty Fund	\$ 5,272	\$ 5,350
Disaster Loan Fund	24,419	33,438
Business Loan and Investment Fund	75,098	97,485
Total Due Treasury	\$ 104,789	\$ 136,273

NOTE 11. OTHER LIABILITIES

Other liabilities as of September 30th were:

(Dollars in Thousands)

	2008	2007
OTHER LIABILITIES - INTRAGOVERMENTAL		
Entity		
Current		
Employment Taxes Payable	\$ 3,167	\$ 2,400
Advances from Other Agencies	5,823	4,780
Total Current	8,990	7,180
Non-current		
Employment Taxes Payable	4,117	6,507
Federal Employee Compensation Act Payable	6,005	5,718
Payable to Federal Financing Bank	435	637
Total Non-current	10,557	12,862
Total Entity	19,547	20,042
Non-entity		
Current		
Payable to Treasury	7	12
Total Other Liabilities - Intragovernmental	\$ 19,554	\$ 20,054
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	\$ 14,209	\$ 11,710
Accrued Unfunded Annual Leave	24,547	22,908
Suspense Accounts	454	847
Total Current	39,210	35,465
Non-current		
Prior Liens on Real Estate Payable	424	492
Total Non-current	424	492
Total Entity	39,634	35,957
Non-entity		
Current		
Non-entity Current Payable	4	4
Total Other Liabilities - Public	\$ 39,638	\$ 35,961

NOTE 12. LEASES

The SBA leases all facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with GSA for each facility. GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2008 and 2007 facilities lease costs were \$41.5 million and \$45.7 million. Future lease payments below assume a 3 percent inflation factor from the following years' projected totals as estimated by GSA, as well as continued costs during the next 5 years as leases expire and new leases are added. Payments after five years reflect only current leases that will still be in effect then, projected to the end of each lease term.

Future Facilities Operating Lease Payments

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	Lease Pmts
2009	\$ 44,458
2010	45,792
2011	47,165
2012	48,580
2013	50,038
After 2013	62,988
Total	\$ 299,021

NOTE 13. NON-ENTITY REPORTING

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset held by the SBA is Fund Balance with Treasury held in the Treasury general fund accounts specifically established for SBA's downward subsidy reestimates for its discretionary loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury with the exception of one deposit fund. Also at year-end, the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates, in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guarantee liability, and an account payable to the non-entity fund. In the loan program funds the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds; since both are included in SBA's reporting entity. The Downward Reestimate Payable to Treasury in the non-entity Treasury general fund is not eliminated and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

	2008	2007
Entity		
Financing Fund Payable	\$ (466,887)	\$ (645,826)
Non-entity		
Miscellaneous Receipts Fund Receivable	466,887	645,826
Downward Reestimate Payable to Treasury	(466,887)	(645,826)
Balance Sheet Reported Payable	\$ (466,887)	\$ (645,826)

NOTE 14. CONSOLIDATED STATEMENT OF NET COST

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

Operating Cost

The full and net operating costs of SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenues arise from exchange transactions, and are deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenues when reimbursements are payable from other federal agencies and the public, as a result of costs incurred or services performed. A major source of earned revenue include: interest earned on SBA's outstanding Business and Disaster loan portfolios and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA changed the FY 2008 strategic plan to reorder the strategic goals: Goal 1 became Goal 3, Goal 2 became Goal 1, and Goal 3 became Goal 2. Additionally, four contracting assistance programs were moved from the FY 2008 strategic Goal 3 Improve Economic Environment to the strategic Goal 1 Expand America's Ownership Society. The Consolidated Statement of Net Cost has been updated accordingly in FY 2008 to reorder the goals and reflect the movement of the contracting assistance programs in the FY 2007 comparative year.

The SBA reports costs consistent with its strategic goals. The costs of Goal 4 "ensure that all SBA strategic goals operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services" are fully allocated to the other three strategic goals. Goal 4 costs are estimated at \$117.8 million and \$136.0 million for FY 2008 and FY 2007. Costs Not Assigned to Strategic Goals on the Statement of Net Cost includes costs of congressionally mandated grant programs and the Office of the Inspector General.

Intragovernmental Gross Cost is cost incurred by the SBA in exchange transactions with other federal agencies. Gross Cost with the Public is cost incurred by the SBA in exchange transactions. Intragovernmental Earned Revenue is revenue earned by the SBA in exchange transactions with other federal agencies. Earned Revenue from the Public is revenue earned by the SBA in exchange transactions.

The classification as Intragovernmental Costs or Gross Cost with the Public relate to source of the goods and services received by the SBA and not to the classification of related revenue. The classification of revenue or cost being defined as “intragovernmental” or “public” is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

Intragovernmental Costs and Exchange Revenue

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
STRATEGIC GOAL 1:		
Expand America's Ownership Society, Particularly in Underserved Markets		
Intragovernmental Gross Cost	\$ 161,121	\$ 177,027
Gross Cost with the Public	834,610	357,245
Total Strategic Goal 1 Gross Cost	995,731	534,272
Intragovernmental Earned Revenue	79,491	113,964
Earned Revenue from the Public	69,831	78,091
Total Earned Revenue Strategic Goal 1	149,322	192,055
STRATEGIC GOAL 2:		
Provide Timely Financial Assistance to Homeowners, Renters, Nonprofit Organizations and Businesses Affected by Disaster		
Intragovernmental Gross Cost	522,532	603,843
Gross Cost with the Public	530,498	548,749
Total Strategic Goal 2 Gross Cost	1,053,030	1,152,592
Intragovernmental Earned Revenue	128,459	227,421
Earned Revenue from the Public	339,709	298,797
Total Earned Revenue Strategic Goal 2	468,168	526,218
STRATEGIC GOAL 3:		
Improve Economic Environment for Small Business		
Intragovernmental Gross Cost	3,294	6,032
Gross Cost with the Public	10,820	18,662
Total Strategic Goal 3 Gross Cost	14,114	24,694
Cost Not Assigned to Strategic Goals		
Intragovernmental Gross Cost	27,991	16,441
Gross Cost with the Public	91,940	50,864
Total Gross Cost Not Assigned to Strategic Goal	119,931	67,305
Net Cost of Operations	\$ 1,565,316	\$ 1,060,590

NOTE 15. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources, as of September 30, 2008 and 2007. SBA's total budgetary resources were \$3.0 billion and \$2.9 billion for the years ended September 30, 2008 and 2007. Additionally, \$6.1 billion and \$9.1 billion of nonbudgetary resources including borrowing authority and collections of loan principal, interest and fees, in financing funds were reported for the years ended September 30, 2008 and 2007.

Adjustments to Beginning Balance of Budgetary Resources

The SBA made no adjustments to the beginning budgetary resources during the years ended September 30, 2008 and 2007.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs as determined by the reestimation process required by the Federal Credit Reform Act of 1990. The appropriations are received initially in the SBA Program Funds and then transferred to the Financing Funds where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991; Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of Public Debt when funds needed to disburse direct loans and purchase guaranteed loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2008 and 2007, the SBA received \$1.3 billion and \$3.0 billion of borrowing authority from the OMB. At the end of FY 2008, the SBA had no borrowing authority remaining. At the end of FY 2007, the SBA had \$0.6 billion available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at midyear for prior year cohorts and at the end of each fiscal year for the current year cohort. The SBA uses the loan principal, interest and fees collected from the public in its loan financing funds to repay its borrowings. The repayment maturity dates for the borrowing from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for Direct Business loans, 25 years for Guaranteed Business loans and 30 years for Disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2008 and FY 2007, the SBA incurred \$6.1 billion and \$6.7 billion of direct and reimbursable obligations of which \$0.6 billion and \$0.5 billion was apportioned in Category A, \$5.5 billion and \$6.2 billion was apportioned in Category B. Category A apportionments are restricted by quarter and program, Category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2008 and 2007 are \$3.0 billion and \$5.3 billion which include \$1.6 billion and \$3.2 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by OMB. The SBA accumulates the majority of these unobligated balances in its nonbudgetary financing accounts during the fiscal year (\$1.5 billion in FY 2008 and \$4.7 billion in FY 2007) from program collections that are used primarily to repay the Treasury borrowings in the following fiscal year. In addition, unobligated balances are accumulated in budgetary accounts from appropriations (\$1.4 billion in FY 2008 and \$0.6 billion in FY 2007) that are used to finance SBA's ongoing program operations.

Undelivered Orders

Undelivered orders for the periods ended September 30, 2008 and 2007 were \$0.8 billion and \$1.5 billion.

Differences between the Statement of Budgetary Resources and the Budget of the U. S. Government

There was a \$2.2 billion difference between the FY 2007 Statement of Budgetary Resources and the President's FY 2009 budget submission in the "Beginning Unobligated Balance" of the Disaster Financing Fund which was a reclassification by OMB of a portion of "Permanently not Available" related to unused Borrowing Authority. The OMB reported this reclassification in its data input using the MAX system for the President's FY 2009 budget submission. In accordance with an agreement with OMB, the SBA did not revise its reporting of FY 2007 budgetary results to the Treasury in the FACTS II system. The reclassification did not impact the ending balances for FY 2007 or the beginning balance of FY 2008.

The President's Budget with actual numbers for FY 2010 has not yet been published. OMB may make a similar adjustment to SBA's Business Guaranty Financing Fund to reclassify \$.6 billion of cancelled borrowing authority during FY 2008 to the Beginning Unobligated Balance for the year that will create a difference between the President's Budget "actual" column and the SBA's FY 2008 reported results when the President's FY 2010 budget becomes available in February 2009.

NOTE 16. RECONCILIATION OF BUDGETARY OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

The SBA presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

The Federal Financial Accounting Standard No. 7 requires “a reconciliation of proprietary and budgetary information in a way that helps users relate the two.” The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

Consolidated Reconciliation of Budgetary Obligations to Net Cost

For the years ended September 30, 2008 and 2007

(Dollars in Thousands)

	2008	2007
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 6,133,235	\$ 6,683,743
Less: Spending Authority from Offsetting Collections and Recoveries	4,333,868	7,418,503
Obligations Net of Offsetting Collections and Recoveries	1,799,367	(734,760)
Less: Offsetting Receipts	742,578	773,829
Net Obligations	1,056,789	(1,508,589)
Other Resources		
Imputed Financing	24,014	21,091
Other Financing Sources	(567,900)	(730,777)
Net Other Resources Used to Finance Activities	(543,886)	(709,686)
Total Resources Used to Finance Activities	512,903	(2,218,275)
RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	561,903	4,390,501
Resources that Fund Expenses Recognized in Prior Periods	(518,200)	(728,246)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	3,558,121	4,263,660
Offsetting Receipts	742,578	773,829
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(4,621,804)	(5,968,028)
Other - Current Year Liquidating Equity Activity	4,502	9,543
Other Resources that Do Not Affect Net Cost of Operations	(399)	6,038
Total Resources that Do Not Finance Net Cost of Operations	(273,299)	2,747,297
Total Resources Used to Finance the Net Cost of Operations	239,604	529,022
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	1,639	171
Upward Reestimates of Credit Subsidy Expense	1,316,143	515,033
Change in Revenue Receivable from Public	1,869	5,089
Provision for Losses on Estimated Guaranties	1,176	1,540
Change in Unfunded Employee Benefits	740	4,636
Total Components Requiring or Generating Resources in Future Periods	1,321,567	526,469
Components Not Requiring or Generating Resources		
Depreciation or Amortization	1,110	6,603
Change in Bad Debt Expense - Pre-1992 Loans	3,241	(1,215)
Other (Income) Expenses Not Requiring Budgetary Resources	(206)	(289)
Total Components Not Requiring or Generating Resources	4,145	5,099
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	1,325,712	531,568
Net Cost of Operations	\$ 1,565,316	\$ 1,060,590

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods in this reconciliation primarily due to reestimated subsidy costs of loan programs. The subsidy costs are shown in the Statement of Net Cost and are to be covered by budgetary resources but these resources, while available under permanent and indefinite authority, were not provided by year-end. Additionally, there will always be a difference for existing liabilities because the Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations reports only current year changes, not balances.

The table below details these differences:

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Current Year Liabilities Not Covered By Budgetary Resources	\$ 86,918	\$ 85,534
Less: Prior Year	85,534	80,450
Change in Liabilities Not Covered By Budgetary Resources	1,384	5,084
Upward Reestimates of Credit Subsidy Expense	1,316,143	515,033
Change in Revenue Receivable from Public	1,869	5,089
All Other	2,171	1,263
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	\$ 1,321,567	\$ 526,469

NOTE 17. SIGNIFICANT EVENTS

Disaster Activity

In September 2008 Hurricanes Gustav and Ike struck the Gulf Coast in Louisiana and Texas. When disaster strikes in the United States, SBA's loans are the sole form of federal credit assistance for damage incurred by non-farm, private-sector homeowners and businesses. Although Gustav, Ike, and other disasters could possibly generate as much as \$6.4 billion in disaster loan approvals, the SBA is reasonably certain that this demand will not overwhelm the Agency's Disaster operation in FY 2009. Hurricanes Katrina, Rita and Wilma did overwhelm SBA's Disaster operation in FY 2006. In response to this, the SBA revamped its disaster organization, business process and information system. As a result, the SBA expects that the demand for disaster loans in FY 2009 will be met within SBA's existing disaster response capacity.

The SBA received a \$799 million emergency supplemental appropriation at the end of FY 2008 that will be available to fund the costs of loans made to the victims of hurricanes Gustav, Ike, and other disasters. This appropriation included funds for the administrative expenses of SBA's Disaster operation and for the subsidy costs of the Disaster loans. The SBA does not expect that the response to these disasters will adversely strain the Agency's financial resources in FY 2009.

Under the provisions of the Federal Credit Reform Act, the SBA reestimates the credit costs of its Disaster loan portfolio annually. As a result, the SBA is assured of having the financial resources to cover the cost to the Government of existing Disaster loans. The outstanding balance of Disaster loans made to victims of Hurricanes Katrina, Rita and Wilma currently account for about 60 percent of the total outstanding portfolio of Disaster loans. These loans are currently performing slightly better than previous Disaster loans and the SBA does not expect that the subsidy costs for these loans will exceed the historical average.

Economic Status

During FY 2008, the downturn in the nation's housing market continued to impact the overall economy and in August 2008 led to the creation of the Federal Housing Finance Agency (FHFA), a federal government agency of the U.S. Government, as the conservator for the Government Sponsored Enterprises Fannie Mae and Freddie Mac. The GSEs were placed into conservatorship on September 7, 2008. In the subsequent six weeks, the economic crisis grew to even more historic proportions and resulted in the failure of additional major financial institutions, the passage of a \$700 billion federal rescue package and the unprecedented decision by the U.S. Treasury to make equity investments in many of the nation's banks.

As an organization with an \$88 billion portfolio of direct loans and loan guaranties, these economic events will inevitably impact SBA's mission to provide capital to the nation's small businesses and disaster victims. Demand for SBA's business loan programs (measured in number of loans) was down almost 30 percent in FY 2008 from the previous year. Purchases of 7(a) defaulted guaranties were up 50 percent over projected purchases in FY 2008. Under the Federal Credit Reform Act, upward reestimates are automatically covered by permanent indefinite budget authority, which ensures the SBA will have sufficient resources to cover any losses incurred in its existing portfolio without further action by Congress. As described in Footnote 6I, SBA's loan and loan guaranty cost reestimates include all available data through the end of FY 2008 and incorporate macroeconomic indicators. However, the ultimate impact of the financial market crisis and the countervailing efforts by the U.S. and global governments remains unknown at this time.

Combining Statement of Budgetary Resources

For the year ended September 30, 2008

(Dollars in Thousands)

	BLIF		DLF		SBGRF	PCECGF
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary	Budgetary
BUDGETARY RESOURCES						
Unobligated Balance						
Brought Forward October 1	\$ 38,051	\$ 2,816,564	\$ 318,753	\$ 1,861,816	\$ 26,634	\$ 3,213
Recoveries of Prior Year Obligations	1,246	4,790	77,458	471,848		
Budget Authority						
Appropriations Received	504,536		1,108,091		3,000	3,000
Borrowing Authority		30,206		1,316,599		
Spending Authority from Offsetting Collections						
Earned	25,244	2,005,789	6,546	1,552,331	7,326	220
Change in Unfilled Customer Orders		(3,557)		(94,912)		
Total Budget Authority	529,780	2,032,438	1,114,637	2,774,018	10,326	3,220
Permanently Not Available	(36,886)	(1,037,112)	(15,648)	(2,832,184)		(3,213)
Total Budgetary Resources	\$ 532,191	\$ 3,816,680	\$ 1,495,200	\$ 2,275,498	\$ 36,960	\$ 3,220
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred, Net						
Direct	\$ 366,921	\$ 3,138,368	\$ 176,075	\$ 1,406,745	\$	\$
Reimbursable	135,812		101,814		6,589	
Total Obligations Incurred, Net	502,733	3,138,368	277,889	1,406,745	6,589	
Unobligated Balances, Available	9,280	512,691	78,579	639,735	3,938	3,350
Unobligated Balances, Not Available	20,178	165,621	1,138,732	229,018	26,433	(130)
Total Status of Budgetary Resources	\$ 532,191	\$ 3,816,680	\$ 1,495,200	\$ 2,275,498	\$ 36,960	\$ 3,220
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward, Net October 1						
Unpaid Obligations Brought Forward	\$ 11,459	\$ 45,314	\$ 172,132	\$ 1,044,833	\$ 392	\$
Uncollected Customer Payments from Federal Sources Brought Forward		(6,335)		(170,997)		
Total Obligated Balance Brought Forward, Net	11,459	38,979	172,132	873,836	392	
Obligations Incurred	502,733	3,138,368	277,889	1,406,745	6,589	
Gross Outlays	(505,659)	(3,090,033)	(295,452)	(1,507,424)	(6,359)	
Recoveries of Prior Year Unpaid Obligations	(1,246)	(4,790)	(77,458)	(471,848)		
Change in Uncollected Customer Payments from Federal Sources		3,557		94,912		
Obligated Balance, Net, End of Period						
Unpaid Obligations	7,287	88,859	77,111	472,306	622	
Uncollected Customer Payments from Federal Sources		(2,778)		(76,085)		
Total Obligated Balance, Net, End of Period	\$ 7,287	\$ 86,081	\$ 77,111	\$ 396,221	\$ 622	\$ 0
NET OUTLAYS						
Gross Outlays	\$ 505,659	\$ 3,090,033	\$ 295,452	\$ 1,507,424	\$ 6,359	
Offsetting Collections	(25,244)	(2,005,789)	(6,546)	(1,552,331)	(7,326)	(220)
Net Outlays Before Offsetting Receipts	480,415	1,084,244	288,906	(44,907)	(967)	(220)
Offsetting Receipts		(577,775)		(164,563)		
Net Outlays	\$ 480,415	\$ 506,469	\$ 288,906	\$ (209,470)	\$ (967)	\$ (220)

Combining Statement of Budgetary Resources

For the year ended September 30, 2008

(Dollars in Thousands)

	SE	OIG	BATF	TOTAL	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES						
Unobligated Balance						
Brought Forward October 1	\$ 230,145	\$ 5,685	\$ 283	\$ 622,764	\$ 4,678,380	\$ 5,301,144
Recoveries of Prior Year Obligations	23,026	143	2	101,875	476,638	578,513
Budget Authority						
Appropriations Received	423,574	18,000		2,060,201		2,060,201
Borrowing Authority					1,346,805	1,346,805
Spending Authority from Offsetting Collections						
Earned	358,892	1,116		399,344	3,558,120	3,957,464
Change in Unfilled Customer Orders	(103,614)	(26)		(103,640)	(98,469)	(202,109)
Total Budget Authority	678,852	19,090		2,355,905	4,806,456	7,162,361
Permanently Not Available	(6,693)	(228)		(62,668)	(3,869,296)	(3,931,964)
Total Budgetary Resources	\$ 925,330	\$ 24,690	\$ 285	\$ 3,017,876	\$ 6,092,178	\$ 9,110,054
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred, Net						
Direct	\$ 414,548	\$ 16,436	\$ 11	\$ 973,991	\$ 4,545,113	\$ 5,519,104
Reimbursable	368,949	967		614,131		614,131
Total Obligations Incurred, Net	783,497	17,403	11	1,588,122	4,545,113	6,133,235
Unobligated Balances, Available	110,949	4,020	274	210,390	1,152,426	1,362,816
Unobligated Balances, Not Available	30,884	3,267		1,219,364	394,639	1,614,003
Total Status of Budgetary Resources	\$ 925,330	\$ 24,690	\$ 285	\$ 3,017,876	\$ 6,092,178	\$ 9,110,054
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward, Net October 1						
Unpaid Obligations Brought Forward	\$ 315,019	\$ 2,151	\$ 27	\$ 501,180	\$ 1,090,147	\$ 1,591,327
Uncollected Customer Payments from Federal Sources Brought Forward					(177,332)	(177,332)
Total Obligated Balance Brought Forward, Net	315,019	2,151	27	501,180	912,815	1,413,995
Obligations Incurred	783,497	17,403	11	1,588,122	4,545,113	6,133,235
Gross Outlays	(741,033)	(17,263)	(31)	(1,565,797)	(4,597,457)	(6,163,254)
Recoveries of Prior Year Unpaid Obligations	(23,026)	(143)	(2)	(101,875)	(476,638)	(578,513)
Change in Uncollected Customer Payments from Federal Sources					98,469	98,469
Obligated Balance, Net, End of Period						
Unpaid Obligations	334,457	2,148	5	421,630	561,165	982,795
Uncollected Customer Payments from Federal Sources					(78,863)	(78,863)
Total Obligated Balance, Net, End of Period	\$ 334,457	\$ 2,148	\$ 5	\$ 421,630	\$ 482,302	\$ 903,932
NET OUTLAYS						
Gross Outlays	\$ 741,033	\$ 17,263	\$ 31	\$ 1,565,797	\$ 4,597,457	\$ 6,163,254
Offsetting Collections	(255,278)	(1,089)		(295,703)	(3,558,120)	(3,853,823)
Net Outlays Before Offsetting Receipts	485,755	16,174	31	1,270,094	1,039,337	2,309,431
Offsetting Receipts	(240)			(240)	(742,338)	(742,578)
Net Outlays	\$ 485,515	\$ 16,174	\$ 31	\$ 1,269,854	\$ 296,999	\$ 1,566,853

Stewardship Investments in Human Capital for the five years ended September 30, 2008

Human Capital investments are expenses included in net cost for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for Federal personnel.

Small Business Development Centers deliver management and technical assistance, economic development and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.

SCORE is a nonprofit organization which provides small business counseling and training under a grant from the SBA. SCORE members are successful, retired business men and women who volunteer their time to assist aspiring entrepreneurs and small business owners. There are SCORE chapters in every state.

Women's Business Centers provide assistance to women business owners and acts as their advocate in the public and private sectors in a number of locations around the U.S.

All Other Training and Assistance Programs includes primarily Small Business Training provided by a counselor from a resource partner, district office, or SBA sponsor who delivers a structured program of knowledge, information or experience on a business-related subject. The training lasts for one or more hours and includes an agenda, attendee list, and a trainer evaluation. The session may be for an individual or a class. Training is also available online on a number of subjects of interest to the small business person. Other programs not separately detailed include Native American Outreach and Drug Free Work Place. As additional years of data accumulate, the investments will be presented separately.

Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

	2008	2007	2006	2005	2004
Small Business Development Centers	\$ 98,484	\$ 99,748	\$ 105,743	\$ 104,075	\$ 97,250
SCORE	10,960	12,267	15,285	18,669	17,993
Women's Business Centers	23,655	16,382	10,382	11,172	19,218
All Other Training and Assistance Programs	41,318	62,787	24,513	46,598	18,250
Total	\$ 174,417	\$ 191,184	\$ 155,923	\$ 180,514	\$ 152,711

