

STATEMENT
FROM
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CONNECTICUT STATE DIRECTOR

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Ladies and Gentlemen

My name is Bernard M. Sweeney; I am the director for the State of Connecticut for the United States Small Business Administration. Our offices are located here in Hartford.

I have had several conversations with Senator Suzio regarding Bill No. 5265.

During our conversation the Senator indicated this was a method for improving Access to Capital for Connecticut small businesses. Any time you hear words like that in this business, you listen very carefully!

Since our conversations I have had an opportunity to read Bill No. 5265; however I would like to make some comments on Senator Suzio's memo to Senator's LeBeau and McKinney, which I think you will agree expands on the intent of 5265.

When you are in a position like mine, you hear from almost every business owner who has been denied a bank loan for their businesses. These reasons run the full range from poor credit to bankruptcies to past criminal records to outstanding Child Support. It's safe to say I've heard just about every excuse known to mankind why their business was denied credit.

The fact is that there is no shortage of monies here in Connecticut to lend to small businesses. Just recently DECD announced a \$ 100 million dollar loan program to small business seeking funds under \$ 100,000. This program too is based on "credit worthiness".

My point is in today's economy banks are demanding high credit scores because the federal regulators are standing over their shoulders questioning poor credit risks! The truth is – ladies and gentlemen we will never again see the days when

a banker will drive out to your business and hand you \$ 50,000 without making so much as an application.

For me reading Senator Suzio's memo he is right on target that we need additional sources of funding, above and beyond our banks. In that sense this bill takes the right approach in coming up with a solution for continuous and long term funding of commercial loans in Connecticut.

Let's be clear on a few twists of an SBA loan and what is known as the SBA guarantee.

An SBA loan is an agreement we have with each participating SBA bank in Connecticut. We have some 78 banks that have agreements with us and are what we consider to be our SBA Participating Banks.

We guarantee the banks' loan, SBA is no longer a direct lender, bank uses their own funds, and under the SBA guarantee program, SBA enters into an agreement each time the bank books a loan under one of our programs.

The business is the recipient of our agreement with the bank to pay the bank upwards of 85% on a loan less than \$ 150,000, or 75% on a loan over \$ 150,000.

Many of our banks in Connecticut sell off the loan, either in its entirety, meaning the banks portion and the SBA portion. Or they just sell off the SBA portion of the loan. The sale of this federal back security is viewed by the bank as income derived from the sale of the loan, the bank continues to service the loan forwarding monthly or quarterly payments to our servicing agent, Coleson Services in New York, NY.

When SBA pays the guarantee to the bank, we are purchasing the loan and all related collateral from the bank and will make a final attempt on collecting the monies owed the federal government. If the loan is sold on the secondary market, as part of their liquidation plan, the bank must first re-purchase the loan from the investors.

Once the bank is in full control of the entire loan, then SBA give them permission to liquidate all assets and SBA will pay the different between what the SBA guarantee is, minus what the Bank collected on its liquidation of all the business assets and collateral which was pledge under the loan agreement.

SBA then makes an attempt to collect the monies owed the government, after a while if we are not successful, or if the borrower has proven they are financial

incapable of repaying the government. We write the loan off and send it over to the IRS, who then issues a 1099 for the monies we wrote off.

IRS issues the borrower a 1099 on monies owed on the taxable income – or the amount of the loan which is still outstanding and owed the government.

Then the IRS takes your tax return for as many years as necessary to repay the federal government. Little wonder when you have the IRS doing your collecting the government ends up not losing as much money as you think we do.

An SBA loan is a federally backed security, and as Senator Suzio stated, it is backed by the full faith and credit of the United States Government. An SBA guarantee sold on the secondary market is a federal backed security.

Investor's purchase our guarantees to provide protected investments income on their portfolio's. You can find higher yields on other investments, but you can't find a investments which are backed by the full faith and credit of the US Government. Most investor's purchases our guarantees not for the investment income, but the protection against loss on their funds.

I do not know if you can purchase SBA guarantees for a geographical area? Usually the loans are packaged into various amounts and sold as a bundle.

In conclusion I think Senator's Suzio interest in creating a pool of funds where business in Connecticut can apply for them is a very good step in the right direction. Whether that is purchasing SBA guarantee's or not, I would have to look into this more and get back to the committee.

I thank you.

Bernard M. Sweeney
SBA District Director