

# Many borrowers unaware they had terror relief loans

(AP) WASHINGTON D.C.—The government promised banks a hands-off approach in overseeing nearly \$5 billion in Sept. 11 recovery aid to small businesses. What it got in return was numerous loans to companies that didn't need terror relief — or even know they were getting it, The Associated Press found.

"Had we known it was 9/11 money, we would not have borrowed it," said John Adams, a vice president of Brankle Brokerage and Leasing in Marion, Ind., who didn't know until informed by AP that his company's \$1.33 million loan had been drawn by his bank from a program created by Congress to help economic victims of the 2001 terror attacks.

"We would have chosen some other avenue. That money surely could have been used by people who needed it more than we did," Adams said.

His company wasn't alone. From Dunkin' Donuts shops and florists to motorcycle dealers and chiropractors, businesses nationwide said they were unaware their banks had lent them money from the low-interest, government-guaranteed Sept. 11 loan program.

The records obtained under the Freedom of Information Act also show that many other loan recipients who made cases they were injured by Sept. 11 were far removed from the direct devastation of New York City and Washington, like a South Dakota country radio station, a Virgin Islands perfume shop and a Utah dog boutique.

The pattern of lending left many at New York's Ground Zero seething, especially those who had trouble getting government assistance.

"You have to take it back and give it to us. Even now, I could use it," fumed Mike Yagudayev, who said the government offered him only \$20,000 of the \$70,000 loan he requested to rebuild the hair salon flattened by the collapse of the World Trade Center's twin towers.

The Small Business Administration, which oversaw the two Sept. 11 loan programs, said it first learned of the problems through

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chief of financial assistance  
Small Business Administration

AP's review and was weighing whether an investigation was needed.

But officials also acknowledged they intended to target the post-Sept. 11 aid broadly because of the enormous impact the attacks had on the U.S. economy.

"We started seeing business in areas you wouldn't think of — tourism, crop dusting, trade and transportation. ... So there were a lot of examples you wouldn't think of, at first blush," SBA Administrator Hector Barreto said.

SBA officials declined comment on documents showing one of their top officials promised banks back in 2002 that there would be a no-questions-asked approach to Sept. 11 relief loans.

"We want you to understand that we do not intend to play gotcha," Jane Butler, the agency's chief of financial assistance at the time, told a gathering of California lenders in June 2002.

Under one of the programs, SBA directly lent money to companies that provided detailed arguments on how they were hurt. The other provided incentives — and guaranteed loans from default — so banks could lend money to companies they determined were hurt by the post-Sept. 11 economic downturn.

Most loans were well below market rates — as low as 4 percent, documents show.

In all, the government provided, approved or guaranteed nearly \$4.9 billion in loans, and took credit for saving 20,000 jobs. That would put the average cost of saving a job at about a quarter million dollars each.

Banks were required to write justification for each company but did not have to submit it to the SBA even though Congress originally required that the loans go only to

companies that could demonstrate they suffered direct or indirect harm from the terror attacks.

SBA documents obtained by AP show banks had a strong incentive to approve as many loans as possible from the terror program. The banks profited from the interest while the government guaranteed between 75 percent and 85 percent of each loan total, leaving banks with little risk.

And the annual fee the lenders paid to SBA to get the government guarantee on borrowed money was slashed from 0.5 percent to 0.25 percent, meaning lenders saved an additional \$5,000 a year for every \$2 million they lent under the STAR program.

While SBA officials expressed surprise at AP's findings, several banking officials said the agency encouraged the industry to use the post-Sept. 11 programs liberally, especially when its main guaranteed lending program was hit hard by budget cuts in 2002.

"They had personnel at our conference stand up and say if you can-

not find a reason to move the loan over to the STAR program, contact us and we'll help you find a reason to move it over, because they had insufficient funding," recalled Tony Wilkinson, president of the National Association of Government Guaranteed Lenders.

Major lenders like Wachovia and Wells Fargo declined to say how many loans they shifted into the terror relief program, saying only that they followed the law.

Wells Fargo, the nation's second largest SBA lender, said the STAR program enabled lenders "to provide funds to new and mature businesses impacted by 9/11" and the company "continues to strictly adhere to SBA operational standards for all SBA loan originations."

Many loans went to local outlets of some of America's most famous and lucrative companies. For instance, more than 100 Dunkin' Donuts, Subway and Quiznos franchises across the country got loans. So did 14 Dairy Queens.

Gordie Barnes, who received a \$1.49 million loan to buy the Williams Garden Center in New Bern, N.C., said the previous owners had mentioned that business was dropping off, but not necessarily because of the attacks.

"It would be a very big stretch of the imagination to figure out how this store would be impacted by those wackos who flew their planes into the Twin Towers," he said.

Leslie Bair used a \$396,000 loan

approved in January 2002 to purchase a recreational vehicle campground in Inglis, Fla. "I would hate to think that my money took money away from somebody else who needed it," she said.

Of the 19,000 loans approved by the two programs, fewer than 11 percent went to companies in New York City and Washington, an AP computer analysis showed.

Thousands of businesses far from the devastation simply submitted short applications that linked their slow business to the widespread economic fallout caused by Sept. 11, and got loans. For instance:

—Karl Grimmelmann, general manager of KBFS-AM "Hit Kick-in' Country" in Belle Fourche, S.D., borrowed \$135,000 from SBA's disaster program after learning about it from a news release. He said his station was forced to pay more money to cover national news and also lost advertisers.

—Margie Olson, co-owner of the Torii Mor Winery in McMinville,

Ore., said her business needed a \$125,000 loan because it couldn't sell high-end pinot noir to restaurants that closed in New York City.

—Melva Kravitz, co-owner of the Little Dogs Resort & Salon in Salt Lake City that offers boarding and grooming services for small dogs, said people stopped taking vacations and boarding their pets after Sept. 11, requiring her \$50,000 loan.

—Christine Hilty, co-owner of Violette's Boutique on St. Croix in the U.S. Virgin Islands, said the perfume shop lost 60 percent of its business overnight as tourism stopped, and she got a \$169,500 loan from the SBA.

Though the loan programs have now ended, the government is inheriting a residual burden. Already, taxpayers have been forced to cover about 600 defaulted disaster loans — some approaching \$1 million each — from companies that went bankrupt or closed. More defaults are expected.

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