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LAX LOANS AP EXCLUSIVE

Sept. 11 recovery money went to small business unaffected by the disaster

By Frank Bass & Dirk Lammers

ASSOCIATED PRESS WRITERS

Sept. 11 recovery loans went to many who didn't need them

September 11 Lax Loans

WASHINGTON (AP)

The government's \$5 billion effort to help small businesses recover from the Sept. 11 attacks was so loosely managed that it gave low-interest loans to companies that didn't need terrorism relief _ or even know they were getting it, The Associated Press has found.

And while some at New York's Ground Zero couldn't get assistance they desperately sought, companies far removed from the devastation _ a South Dakota country radio station, a Virgin Islands perfume shop, a Utah dog boutique and more than 100 Dunkin' Donuts and Subway sandwich shops _ had no problem winning the government-guaranteed loans.

Dentists and chiropractors in numerous cities, as well as an Oregon winery that sold trendy pinot noir to New York City restaurants also got assistance.

"That's scary. Nine-11 had nothing to do with this," said James Munsey, a Virginia entrepreneur who described himself as 'beyond shocked' to learn his nearly \$1 million loan to buy a special events company in Richmond was drawn from the Sept. 11 program.

"It would have been inappropriate for me to take this kind of loan," he said, noting that the company he bought suffered no ill effects from Sept. 11.

Arvind "Andy" Patel, 50, said he used his \$350,000 loan in fall 2002 to remodel his Dunkin' Donuts shop in western New York state and never knew it was drawn through the Sept. 11 program.

"Not at all," Patel answered, when asked whether his business had been hurt by the attacks.

Government officials said they believe banks assigned some loans to the terror relief program without telling borrowers. Neither the government nor its participating banks said they could provide figures on how many businesses got loans that way.

But AP's nationwide investigation located businesses in dozens of states who said they did not know their loans were drawn from the Sept. 11 programs, suggesting at least hundreds of millions of dollars went to unwitting recipients.

The Small Business Administration, which administered the two programs that doled out Sept. 11 recovery loans, said it first learned of the problems through AP's review and was weighing whether an investigation was needed. But officials also acknowledged they intended to spread the post-Sept. 11 aid broadly because so many unexpected industries were hurt.

"We started seeing business (needing help) in areas you wouldn't think of _ tourism,

AP Writers Paul Foy in Utah, Amy Westfeldt and Ben Dobbin in New York, Steven Paulson in Colorado, Carrie Spencer in Ohio and Stephanie Stoughton in Virginia contributed to this story.



AP PHOTO/ED REINKE

>> Dave Bryant sits in one of his stretch limousines at his Ambassador Capital Limousine business, Wednesday, Sept. 7, 2005, in Louisville, Ky. The government's \$5 billion effort to help small businesses recover from the Sept. 11 attacks was so loosely managed that it doled out low-interest loans to companies that didn't need terrorism relief—or even know they were getting it, the Associated Press has found. And while some at New York's Ground Zero couldn't get assistance they desperately requested, companies far removed from the devastation had no problem winning the government-guaranteed loans. Bryant's business received a \$50,000 loan in 2002. His company lost 50 percent of its business following the attacks and ensuing decline in corporate travel, Bryant said.

crop dusting, trade and transportation.... So there were a lot of examples you wouldn't think of, at first blush," SBA Administrator Hector Barreto told AP.

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.

Of the 19,000 loans approved by the two programs, fewer than 11 percent went to companies in New York City and Washington, according to an AP computer analysis of loan records obtained under the Freedom of Information Act.

"I had nothing here," said Shirla Yam, who runs a clothing store in the former shadows of the twin towers that got a \$20,000 grant

from a local advocacy group but no federal aid after Sept. 11. “I don’t know if I’ll be here next month.”

Under one of the programs, SBA lent money directly to companies that provided detailed statements on how they were hurt. The other program 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.

SBA officials acknowledged the second program, the Supplementary Terrorism Activity Relief (STAR), left banks on an honor system to determine worthy loan recipients.

“One lender could have been really strict and specific about the borrower providing the documentation to prove that they were affected by the Sept. 11 attacks, and another banker may not have, or may have had ulterior motives for approving loans,” said SBA spokeswoman Carol Chastang.

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 incurring little risk because the government guaranteed 75 percent to 85 percent of each loan.

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

“There was definitely an advantage to the lender to get that reduced fee,” said Christopher Chavez, an SBA official in Colorado. He said he suspects lenders might not always have talked to businesses about damage from Sept. 11 before moving loans into STAR.

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

“They had personnel at our conference stand up and say if you cannot 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,” recalled Tony Wilkinson, president of the National Association of Government Guaranteed Lenders.

A bank that provided an SBA-backed loan to a trucking firm in Indiana acknowledged it did not tell the recipient about the Sept. 11 connection. “We don’t have any indication there was any communication or provisions we shared with the client that these were funds from the government used to support them from Sept. 11,” said Pat Schubah, first vice president of small business banking at Indianapolis-based Union Federal.

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 bank “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, 55 Dunkin’ Donuts shops across the country, 14 Quiznos sandwich shops and 52 Subway sandwich shops got loans. Fourteen Dairy Queens _ part of the ice cream franchise partly owned by Wall Street billionaire Warren Buffett _ won more than \$5 million in loans.

“I just applied for the loan at the bank. I had no idea where the funds came from,” said Tom Mayl, who got two SBA Sept. 11 loans totaling more than \$800,000 to open a Subway shop in suburban Dayton, Ohio, and a Buffalo Wild Wings restaurant in Sidney, Ohio.

“It doesn’t seem right, just on the surface, but I really don’t know the details,” Mayl said.

Don Robinson said he too didn’t need or ask for terrorism relief when he got a \$765,000 government-backed loan in 2003 _ drawn without his knowledge from the Sept. 11 pro-

gram _ to start a motorcycle shop in Brigham City, Utah.

“Actually, the motorcycle industry grew after 9/11,” Robinson said. “People just took their money out of the stock market to buy toys.”

Dentists and chiropractors also were frequent, but unwitting, beneficiaries. “They weren’t putting their health second to anything else,” chiropractor Colby Shores said of his patients in the suburbs of Rochester, N. Y. He was unaware his \$87,000 loan with a 4 percent interest rate came from the terror relief program.

The loan patterns uncovered by AP left some seething in the neighborhoods directly scarred by Sept. 11.

“You have to take it back and give it to us. Even now, I could use it,” said Mike Yagudayev, who said the SBA would only provide him \$20,000 of a \$70,000 loan he requested to rebuild his hair salon flattened by the collapse of World Trade Center towers in New York.

“I said, ‘You know what, take it back. Twenty thousand is like an insult,’” he recalled.

Thousands of businesses far from the devastation had no trouble getting SBA loans, simply submitting short applications that linked their slow business to the widespread economic fallout caused by Sept. 11. For instance:

–Karl Grimmelmann, general manager of KBFS-AM “Hit Kickin’ 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. “Everybody started holding onto their money, plain and simple,” he said.

–Margie Olson, co-owner of the Torii Mor Winery in McMinnville, Ore., said her business needed a \$125,000 loan because it couldn’t sell high-end pinot noir to Manhattan restaurants that had closed. “Everyone started hitting the heavy stuff,” Olson said, laughing.

_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. “It was awful,” she said. “You just couldn’t go on.”

_Christine Hilty, co-owner of Violettes Boutique on St. Croix in the U. S. Virgin Islands, said the perfume shop lost 60 percent of its business overnight as tourism stopped. She got a \$169,500 loan from SBA. “Would we have closed our doors? It was close,” she said. “Everyone was afraid to get on a plane. Tourism was totally halted.”

Though the loan programs have 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.

Jim Hammersley, who runs the SBA’s collection arm, said many applicants asked for too much or too little money to keep their businesses afloat.

“The folks that were dealing with the aftermath of 9/11 didn’t have anything that certain to try and gauge whether they needed money or how much they needed,” he said. ■

>> On the Net:

SBA: <http://www.sba.gov>

Lax Loans

Congress to investigate Sept. 11 loan program

WASHINGTON (AP)

Congress will investigate the “flagrant abuse” of a federal loan program designed to help businesses recover from the Sept. 11 attacks and make sure such problems don’t occur with Hurricane Katrina relief, a key Senate Republican announced Friday.

Sen. Olympia Snowe, R-Maine, chairwoman of the Senate Small Business and Entrepreneurship Committee, announced the investigation in response to an Associated Press story Thursday that showed the federal program was so loosely managed that it gave low-interest loans to companies that didn’t need terrorism relief or even know they were getting it.

“The apparent widespread abuse of loans provided through the Supplemental Terrorist Activity Relief Act is nothing short of an outrage,” Snowe said.

The committee chairwoman said she would demand answers from both the banks that gave the loans and the Small Business Administration, which supervised the program.

“Congress must seek and find answers when confronted with a situation that represents a possible betrayal of the public trust especially at a time when the people of the Gulf Region need every resource available to recover,” Snowe said. “... I intend to exert my oversight power to determine how such flagrant abuse could happen and to ensure that Small Business Administration loans truly go to those who need them.”

The SBA guaranteed \$3.7 billion in loans under the STAR program, bringing its total Sept. 11 assistance package for businesses to nearly \$5 billion.

Sen. John Kerry of Massachusetts, the committee’s top Democrat, joined in the call for an investigation.

“This was a deliberate attempt to cover up White House budget gimmicks that left the SBA’s largest loan program underfunded and on the brink of shutting down,” Kerry said. “The administration asked SBA employees to bend the rules and steer regular loans through the program aimed at helping businesses impacted by 9/11.”

Also on Friday, Sen. Hillary Rodham Clinton, D-N. Y., sent a letter to SBA Administrator Hector Barreto, urging him to conduct a comprehensive review of the STAR program and report the agency’s findings to Congress as soon possible.

In a statement released Friday night, Barreto called the AP story “rife with errors and based on misunderstanding of what the programs were intended to accomplish.” The statement did not cite any examples of errors or misunderstandings. Earlier, an agency spokesman, Michael Stamler, also claimed the story was wrong but refused to elaborate.

Barreto’s statement said the program that provided roughly 75 percent of the \$5 billion recovery effort “was operated in an open, transparent and aboveboard manner and did not reduce the availability of low-interest disaster recovery loans to small businesses in the areas directly attacked by the terrorists. We look forward to demonstrating to Congress and the American people that the SBA appropriately implemented its congressional mandate.”

The AP reported Thursday that businesses as diverse as Dunkin’ Donuts shops and

motorcycle dealers far from New York and Washington got loans drawn without their knowledge by their banks from the Sept. 11 program.

AP quoted several business owners as saying they hadn't been hurt by the attacks and were embarrassed to learn their loans came from the program. And banking officials and SBA documents show the SBA encouraged lenders to give out the low-interest, government guaranteed loans using the loosest interpretation of the rules.

Meanwhile, a poll taken shortly before the story was published showed that nearly three quarters of Americans believe the government did a good job helping the economy recover from Sept. 11.

An AP-Ipsos poll found there was general satisfaction with the economic relief efforts from Congress and the Bush administration among people in all gender, race, educational and age categories.

When last week's poll participants were interviewed and told about AP's findings about the loan program, some said the program seemed misguided to give away valuable aid so broadly.

"It's not necessarily what I would have done," said Nancy Hannaford, a Santa Clara, Calif., tutor and Web designer. "Nobody bailed everyone here out during the dot-com bust."

Overall, 27 percent of those surveyed said the government had done a very good job, and

45 percent said a somewhat good job, on the recovery. Twenty-seven percent said they believed had done a somewhat poor or very poor job on the economic recovery.

Young Americans, unmarried people and Democrats were less approving of the response, while older Americans, married people and Republicans were more likely to approve.

The poll of 998 adults was conducted Aug. 30-Sept. 1 by Ipsos, an international polling firm, and has a margin of sampling error of plus or minus 3 percentage points.

The economic toll from the Sept. 11 suicide hijackings has been estimated to be as high as \$639 billion and to have cost 2 million jobs, according to a New York Senate panel study. The federal government responded with billions of dollars in loans and grants from numerous programs and agencies.

It also launched the largest federal reorganization in a half century, merging 22 agencies to create the Department of Homeland Security, which will spend approximately \$47 billion this year.

David Seratto, an Orange County animal control officer, said one of the government's better responses to the attacks was taking over security at all U. S. airports, returning confidence to flying.

"You're safer when you're flying now," he said. "It's inconvenient, but it's a necessary inconvenience." ■

Sept. 11 Lax Loans

Feds praise their Sept. 11 relief loan program but omit critical audit

WASHINGTON (AP)

Facing a congressional inquiry, the Small Business Administration said Tuesday it believes it followed the law during its nearly \$5 billion lending effort to help small companies recover from the Sept. 11, 2001, attacks.

To make its case, the agency distributed one audit that praised some of its work while omitting a second report by the same congressional auditing agency that criticized the SBA's post-Sept. 11 relief work.

The SBA was responding to an Associated Press story last week that found numerous loans went to small businesses that neither knew they were getting _ nor wanted _ loans designed for economic victims of the terrorist attacks.

AP reported companies hundreds of miles from the devastation of ground zero _ from a Utah motorcycle dealer to an Ohio Subway sandwich shop _ had received SBA-backed loans without being aware they had been drawn from the Sept. 11 relief programs.

"After 9/11, the SBA was doing all it could to help small businesses, not only in the areas directly affected by the terrorist attacks, but across the country as well," SBA chief Hector Barreto said. "We are confident the SBA implemented the program in the way Congress intended and did so in an open and above-board manner."

Barreto described the AP report as 'sensational and distorted, "without citing any specifics."

Sen. Olympia Snowe, R-Maine, chairwoman of the Senate Small Business and Entrepreneurship Committee, said the apparent abuse of the program was "nothing short of an outrage." Sens. John Kerry, D-Mass., and

Hillary Rodham Clinton, D-N. Y., also called for investigations.

The SBA circulated an August 2004 report by the Government Accountability Office, Congress' auditing arm, that concluded the SBA had followed its rules in one of the lending programs.

"No qualified loan applicants for SBA disaster relief after the 9/11 terrorist attacks were denied loans," the SBA said.

But the audit it cited was undertaken in response to complaints that more should have been done for affected businesses. The report also only looked at lending procedures under SBA's Economic Injury Disaster Loan (EIDL) program, which accounted for slightly more than \$1.1 billion in direct government loans.

Many of the loans cited in the AP story came from the SBA's Supplementary Terrorism Activity Relief (STAR) program, which accounted for roughly \$3.7 billion in guaranteed loans that were distributed by banks.

The SBA's press release also omitted a second GAO report, from January 2003, that rapped the agency for using 'inconsistent and subjective measures' to gauge the success of its disaster-relief efforts.

"The inadequacies of SBA's measures are especially evident when considered in light of the agency's performance in responding to the Sept. 11 terrorist attacks," the second report concluded.

That report also noted that "business owners testified that SBA's existing disaster program did not have the ability to provide adequate loans to small businesses within the disaster areas." ■

Dirk Lammers contributed to this report from Sioux Falls, S. D.

Sept. 11 Lax Loans

Small Business Administration ignores criticism of post-Sept. 11 loans

WASHINGTON (AP)

The Small Business Administration is distributing an audit praising its post-Sept. 11 relief work, while omitting a second report by the same auditor that criticized a substantial part of SBA's \$5 billion lending effort.

The agency faces a congressional inquiry after The Associated Press reported it had made numerous loans to small businesses that neither wanted nor knew they were getting money earmarked for economic victims of the terrorist attacks.

The AP reported that companies hundreds of miles from the devastation of ground zero — from a Utah motorcycle dealer to an Ohio Subway sandwich shop — had received SBA-backed loans without being aware they had been drawn from the relief programs.

"After 9/11, the SBA was doing all it could to help small businesses, not only in the areas directly affected by the terrorist attacks, but across the country as well," SBA chief Hector Barreto said. "We are confident the SBA implemented the program in the way Congress intended and did so in an open and aboveboard manner."

Barreto described the AP report as "sensational and distorted," without citing any specifics. But Sen. John Kerry, D-Mass., described the program as 'a deliberate attempt to cover up White House budget gimmicks that left the SBA's largest loan program underfunded and on the brink of shutting down.'

Kerry, the ranking Democrat on the Senate Small Business and Entrepreneurship Committee, has been joined in calling for an investigation by committee chairwoman Sen. Olympia Snowe, R-Maine, and Sen. Hillary Rodham Clinton, D-N. Y.

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>> On the Net:
Small Business Administration:
<http://www.sba.gov/>

Dirk Lammers contributed to this report from Sioux Falls, S. D.



AP PHOTO/CHARLES KRUPA

>> Ted Grove, of Providence, RI, poses with screws from his family's company Pilgrim Screw Corp. on Tuesday, Sept. 6, 2005. Before the terrorist attacks on Sept. 11, 2001, Grove's family had an \$8 million company with 90 employees. Within months, they had lost 40 percent of their business and laid off nearly a third of their workers. A program by the Small Business Administration, a federal agency, aimed to ease some of the pain by offering low-interest loans to small companies around the nation. The agency provided some loans and guaranteed others from private banks.

Sept. 11 Lax Loans

Inspector general confirms that Sept. 11 loan recipients weren't hurt by attacks

WASHINGTON (AP)

Most companies interviewed about the government-backed Sept. 11 loans they received have told investigators they weren't hurt by the suicide attacks and didn't know they were getting terrorism assistance, an internal government investigation found.

The Small Business Administration's inspector general also reported Wednesday that lenders who doled out billions of dollars in such loans failed _ 85 percent of the time _ to document that recipients were actually hurt by the terrorism attacks and therefore eligible for the federal aid.

The IG, the agency's internal watchdog, concluded only nine loan recipients in the 59 cases sampled appeared to be qualified for the special disaster loans. The report said SBA officials told lenders they would not be questioned on how they gave out money.

"We believe these communications were intended to, and did, send a message to lenders that the agency would not question lender eligibility determinations," the inspector general reported.

The investigative report substantiates key findings of an Associated Press story in September that found similar problems with the SBA's Supplementary Terrorist Activity Relief (STAR) program.

The AP found that terrorism recovery loans went to businesses including a South Dakota radio station, a Virgin Islands perfume shop, a Utah dog boutique, and more than 100 Dunkin' Donuts and Subway sandwich shops in various locations.

Meanwhile, small businesses near Ground Zero in New York couldn't get the assistance they desperately sought.

SBA Administrator Hector Barreto put the best face on the findings, saying the audit did not find that loan recipients were unqualified for the program, although he did note that lender documentation could have been better.

His statement, however, was contradicted by Sen. Olympia Snowe, R-Maine, chairwoman of the Senate committee that oversees the Small Business Administration.

"These initial findings are troubling and the committee ... will continue with its own investigation of the STAR program to get at the truth and inform Congress for the future," she said.

Snowe, who heads the Committee on Small Business and Entrepreneurship, said if abuses are discovered, "many questions must be answered by the parties involved, beginning with: How and why was this allowed to happen?"

The IG's report found:

_Only 2 of 42 borrowers interviewed were aware they had obtained a STAR loan.

_In cases where eligibility could not be established, 25 of 34 borrowers interviewed said they were not adversely affected by the terrorist attacks.

_Thirty-six of 42 borrowers questioned said they were not asked, or could not recall if they were asked, about the impact of the attacks on their businesses.

The report said IG investigators were told by lenders that their participation originally was low because of unclear requirements.

SBA officials then embarked on a vigorous marketing campaign, and lenders interpreted their remarks to mean "that every small business could claim it was somehow impacted by the attacks, and therefore, eligible to receive a STAR loan," the report said.

Sept. 11 Lax Loans

Inspector general confirms that Sept. 11 loan recipients weren't hurt by attacks

REPORT FINDINGS: The majority of Sept. 11 loan recipients were not hurt by the attacks and didn't know they were getting terrorism assistance, says the Small Business Administration's inspector general.

LENDERS' ERRORS: In most cases, lenders who doled out billions of dollars in the SBA's Supplementary Terrorist Activity Relief program failed to document that recipients were actually hurt by the terrorism attacks and therefore eligible for the federal aid.

LOAN RECIPIENTS: Terrorism recovery loans went to businesses including a South Dakota radio station, a Virgin Islands perfume shop and a Utah dog boutique.

>About the writers

Frank Bass is a multimedia investigations reporter for The Associated Press in Washington, D.C. He joined AP in 1997 as director of computer-assisted reporting, where he helped spearhead investigations into agricultural subsidies for the wealthy, enforcement actions at U.S. airports, and high death rates among Mexican immigrant workers. He is the author of The Associated Press Guide to Internet Research and Reporting and was the lead news manager for the news agency's comprehensive coverage of 2000 Census results.

Before joining the AP, Bass worked at The Wall Street Journal/Texas Journal, The Houston Post, and The Alabama Journal, where he shared the 1988 Pulitzer Prize for General News Reporting for an investigation into the state's unusually high infant mortality rate.

Bass was the 1994 Texas Headliners Foundation Reporter of the Year, shared the 1988 Sigma Delta Chi Public Service Award, and contributed to a series of stories that won the 2004 Polk Award for Labor Reporting.

He has taught seminars on investigative reporting around the country and is a former adjunct faculty member at the Massachusetts College of Liberal Arts.

Dirk Lammers, 37, joined The Associated Press in 2003 and is currently a newsman based in Sioux Falls, S.D, covering business and other topics. Before joining AP, Lammers worked as a staff writer, computer-assisted reporting coordinator and entertainment editor for The Tampa Tribune. A native of Freehold, N.J., Lammers has a bachelor's degree in mass communications from the University of South Florida in Tampa, Fla.

