SBA Loan Sale #1 Questions
Pre-Bid Conferences
June 29 – July 1, 1999

1. Please clarify – will any of the loans have any remaining SBA guarantees?

Answer: The SBA guarantee is not available to successful bidders for any of the assets in Loan Sale #1.

2. Where and who is currently servicing the loans?

Answer: The SBA currently services the majority of loans in Sale #1 at the SBA field offices, which are located across the country. A private lender services fewer than 100 of the loans.

3. Are the defaulted real estate loans being currently worked (i.e. loss mitigation)? Is foreclosure under way?

Answer: On July 2, 1999, the SBA ceased all actions that could affect the outstanding collateral, except any actions that must be taken to protect and preserve the collateral. Loans where a foreclosure sale is scheduled to occur prior to the Bid Date have been excluded from this Sale.

4. Will bid information packages be sent automatically to registered bidders?

Answer: Bidder Information Packages are currently available for prospective bidders, who provide an executed Confidentiality Agreement and Bidder Qualification Statement to KPMG. Both of these documents are available on SBA's website.

5. Would you speak to the servicer requirements of the asset sale agreement? If we are not a SBA approved lender but have been purchasing loans from the FDIC and private banks how can we qualify?

Answer: The SBA has modified the servicing qualifications to include servicers who have prior experience in servicing small business loans. The changes to the qualifications are posted on the SBA's website.

6. What is the time limit on warranties?

Answer: Unless otherwise terminated pursuant to the terms of the Loan Sale Agreement, the warranty period governing the representations and warranties made by SBA with respect to the loans expires 180 days following the closing date.

7. If you bring fewer than 5 people can you schedule more than 10 days?

Answer: Due to widespread interest in the Sale, prospective bidders will need to abide by the 10-day limitation. However, if there is space available in the Due Diligence Facility, the SBA will be flexible.

8. Does SBA give a rep for prior servicing actions?

Answer: No representations or warranties are available for prior servicing actions. Bidders should carefully examine the Loan Sale Agreement, which can be found at Tab 13 of the Bidder Information Package.

9. Are there any requirements to service the loans in accordance with SBA guidelines or other agency requirements?

Answer: Loans are required to be serviced using the same commercially reasonable standards used for other non-SBA small business loans. Servicers must provide written notice of changes to current servicing practices. Servicers must have access to multi-lingual personnel to assist borrowers on an as-needed basis. These requirements are delineated in the Bidder Information Package. Bidders should carefully examine Loan Sale Agreement, which can be found at Tab 13 of the Bidders Information Package.

10. When will purchase and sale agreements be made available?

Answer: This information is currently available at Tab 13 in the Bidder Information Package.

11. Will buyers have the ability to assign, or must we fill out all documentation in buy entity name?

Answer: The bid documentation is assignable to third parties, however, assignment will terminate the representations and warranties in the Loan Sale Agreement.

12. Who do we make the $500 due diligence fee payable to? Where do we send it? Can we get info prior to site visit?

Answer: While the Small Business Administration will receive the funds, the $500 due diligence fee should be made payable to METEC Asset Management, LC. It should be sent to:

Mr. Wayne Thornton
U.S. Small Business Administration
409 Third Street, S.W.
Suite C-970
Washington, DC 20416

Some information on the Sale is available to qualified prospective bidders in the Bidder Information Package. Third party reports and payment histories are available on CD-ROM disks that are sent to all prospective bidders, who pay the $500 due diligence fee.

13. SBA criteria for performing versus nonperforming is based only on days past due?

Answer: The performance status is based on the interest paid to date. Zero – 59 days is considered "performing," 60-89 days is considered "past due," and 90 days and longer is considered "delinquent."

14. What servicing system does SBA utilize?

Answer: The SBA utilizes a proprietary system for loan servicing.

15. Do you have a minimum reserve bid?

Answer: At the SBA's discretion, the agency may reject any and all bids that do not meet its financial objectives.

16. Can you explain why the floor is on UPB?

Answer: The floor calculation is based on UPB because bidders that utilize floors typically desire a minimum dollar volume in order to make the transaction economically attractive. Basing the floor on the UPB allows bidders to readily make this calculation. Please note that caps and floors are not compulsory. Caps and floors can be utilized by bidders to manage their bids more effectively.

17. Will SBA be making settlement agreements with borrowers for settlements post July 31st?

Answer: The SBA established a freeze date of July 2, 1999, after which no settlements or compromises will be accepted.

18. What is the purpose of dividing out the four pools?

Answer: One of the SBA's public policy objectives is to create an Asset Sales Program that is attractive to prospective bidders of all sizes. The four pools were based on performance, collateral, and geographic concentrations. They should be attractive to a wide variety of bidders.

19. Did the SBA attempt to update the following for every loan?
Market value of:
Real Estate?
Other Collateral?
Borrower Financials?
Credit Reports?

Answer: The SBA ordered property valuations on real estate for those commercial real estate loans whose valuations are over one year old. The SBA has ordered credit reports including FICO scores on borrowers, co-borrowers, and guarantors. Updated borrower financial information and valuations of non-real estate collateral has not been requested.

20. What percent of the data fields are complete?

Answer: There is a diverse population of assets in Loan Sale #1. The Sale includes loans secured by real estate, loans secured by business assets of all types, unsecured assets, and loans whose borrowers are corporations, partnerships, or sole proprietorships. The due diligence database needs to accommodate this wide variety of assets, and all the data fields will not be complete for each loan. The number of complete fields will vary based on the individual characteristics of each loan.

21. What exactly comes on the CD-ROM?

Answer: There are two mailings of CD-ROMs. The CDs will contain the individual loan detail, loan pooling information, available photographs of property valuations, available credit report information, asset search results, and loan liquidation and servicing comment fields. The second mailing of the CDs will contain the third party report information obtained since the mailing of the first CD, as well as updated pooling and database information . The Bidder Information Package contains the Due Diligence Data Availability Matrix which identifies the due diligence data and how prospective bidders can access the data.

22. How long do the servicing requirements of the buyer extend?

Answer: The servicing requirements are in effect for the life of the loans.

23. Are these whole loans that are being sold, or are some still subject to some form of beneficial interest held by the originating bank?

Answer: At closing, Loan Sale #1 will consist of only whole loans. With respect to certain 7(a) loans, the originating lenders retained a beneficial interest in the loans following SBA's payment of the guarantee and acquisition of legal title to the loan. The SBA has obtained the consent of the originating lenders to include their portion of the loans in the Sale. The lenders beneficial interest in the loans will be assigned to the SBA prior to closing.

24. Will all the information that is being collected (phase I, BPOs, appraisals) be available at the time the war room opens? Or will this be trickling in over time?

Answer: The SBA has ordered the third party reports, including among other things, property assessments, environmental screens, credit reports. Not all the information will be

available at the start of the due diligence period. Additional information will be distributed in the second CD-ROM.

25. Is the "Due Diligence Fee" of $500 per team or per person?

Answer: The $500 fee is per due diligence team. It entitles a prospective bidder to any combination of the CD-ROMs, access to the due diligence facility in person, and/or access to the database via a modem line.

26. Are there any "reps and warranties" on taxes, tax liens, IRS liens?

Answer: There are no representations or warranties covering these items. Bidders should carefully examine the provisions of the Loan Sale Agreement at Tab 13 of the Bidder Information Package.

27. What type of environmental data is typically on file? What if any do typical problems look like?

Answer: The SBA has ordered environmental screens on real properties that may be considered to be environmentally hazardous due to their location or the nature of the business conducted there. The SBA ordered Phase I reports on gas stations and other collateral types identified as having a history of possible environmental problems. The loans with possible readily identifiable environmentally impacted collateral have been pooled together.

28. What does "promptly" retrieve files really mean? Physical packaging and pick-up of files in Washington DC? Arrangement of shipping, etc-costs borne by successful bidder?

Answer: Successful bidders may either pick up the files themselves on the Closing Date, or make arrangements with a shipping service to retrieve the files on the successful bidders behalf. The loan files must be retrieved on the Closing Date.

29. Why are the late charges kept by SBA after cut-off dates? Typically all payments are kept by buyer after cut-off date?

Answer: Any payments received after July 31, 1999 will belong to the successful bidders, although no changes will be made to the Loan Sale Agreement. These payments include late charges, however Bidders should be aware that neither the SBA nor the other servicer of the loans charges late fees even if the loan documents would permit such a fee.

30. Limited power of attorney expires in April 2000. However, you may not be aware that you have to file a document until much later?

Answer: The SBA Office of General Counsel has agreed to extend the power of attorney beyond April 1, 2000, until July 1, 2000.

31. Does being a HUD approved servicer allow you to service these loans?

Answer: As a HUD approved servicer, the entity would satisfy one of the criteria for servicer qualification. The various requirements are set forth in section 6.5 of the Loan Sale Agreement.

32. To the best of your knowledge, will the protections under Federal law carry over to the new owners of the loans (or will they be confined to state law remedies?

Answer: It is likely that successful bidders will be confined to state law remedies. Prospective bidders should consult with their counsel regarding the remedies that may be available to them.

33. How often will you have loan sales?

Answer: The SBA plans to sell approximately $8.5 billion in assets over the next few years. These sales will consist of assets from the Disaster Loan Program in addition to the 7(a) previously guaranteed and Development Company loans. The SBA also plans on conducting loan sales into the future as their portfolio grows due to loan purchases.

34. Must (are there any instances) where recovered funds must be shared with original lender?

Answer: Bidders will have no continuing obligation to the originating lenders, and will not share any recovered funds with these lenders.

35. Why are there so many disaster loans which have defaulted?

Answer: The loans from the Disaster Loan Program are not included in Loan Sale #1.

36. Briefly describe the "disaster loan" program.

Answer: The Disaster Loan Program provides loans to businesses and individuals who have been affected by federally-declared disaster areas, due to floods, hurricanes, earthquakes, or other reasons. The loans can be used either to finance physical damage or for economic hardship due to the disaster. As noted above, there are no disaster loans in Loan Sale #1.

37. How would a 7(a) loan with equipment and 2nd mortgages as extra collateral be classified on the stratification of multiple collateral?

Answer: Generally, loans are stratified based on the purpose of the loan. In this example where the funds were used to purchase equipment and the second mortgage was obtained as additional collateral, the loan would be pooled in a non-real estate, secured pool.

38. Are there any uncollateralized pools in the first sale? Were they originated without collateral? Or did the collateral go away?

Answer: There are unsecured pools of loans in Loan Sale #1. In some instances, the assets in these pools were originally unsecured. In other situations, the collateral has been liquidated.

39. Are there servicing practices which will be prohibited?

Answer: The Loan Sale Agreement describes the post-sale servicing requirements fully. The loans are required to be serviced in accordance with prudent commercial practices and standards applicable to similar loans. Bidders should carefully examine the loan sale agreement, including Section 6.5, to determine the various post-sale servicing requirements that will apply.

40. Are personal guarantors identified on the tape? Are their social security numbers provided?

Answer: Many loans are supported by personal and/or corporate guarantees. The guarantors are identified in the loan database. Where available, the SBA has obtained credit reports on borrowers and guarantors, which should contain social security numbers.

41. What is the basis for real estate valuation?

Answer: For loans secured by commercial real estate with UPBs between $100,000 and $149,999, the SBA has ordered Broker's Opinions of Value. For commercial real estate loans with UPBs of $150,000 and over, the SBA has ordered "drive-by" appraisals.

42. Are you able to purchase individual loans within a pool?

Answer: No loans will be sold individually.

43. What information is available on the different media? I.e. bid, diskette, CD-ROM, modem and/or on-site?

Answer: The Due Diligence Data Availability Matrix identifies the due diligence data and the media on which such data is available. This matrix was provided in the Pre-Bidder Conference materials. This information is also available under Tab 8 of the Bidder Information Package.

44. What is a complete credit file? Notes, mortgages, loan application, appraisals, and title?

Answer: All this information, where available, is contained in the imaged Asset Review File. In addition, the SBA is providing credit reports, servicing and liquidation comment fields, and other information, where available.

45. How did you determine the current loan to value ratios?

Answer: The LTV should be the ratio of the current UPB divided by the amount of the most recent property valuation.

46. Will there be correspondence between the borrower and the lender (SBA) in the file?

Answer: Since the SBA services the overwhelming majority of these loans, most of the correspondence will be between the SBA and the borrower. Any correspondence that is in the loan file will be included in the imaged documents. In addition, some correspondence may be summarized in the SBA's loan servicing and tracking comment screens.

47. What about litigation between the borrower and the lender/SBA?

Answer: Litigation information will be available on the CD-ROM, and through the due diligence imaging computer system either in person or via a modem line.

48. Are there any special concessions provided to SBA loans? Extended statutes? Non-dischargable in bankruptcy?

Answer: SBA is not aware of any special concessions that will be provided to the loans purchased in Loan Sale #1.

49. What efforts have been made to recover disaster relief loans?

Answer: Loans from the Disaster Loan Program are not included in Loan Sale #1.

50. How are payments (post cut-off) applied? Late fees first?

Answer: Typically, SBA applies interest first and principal second. Often, in cases of loans in liquidation, money is applied only to principal. All payments received after the cut-off date of July 31, 1999, belong to the successful bidders. Note that the successful bidders must notify the borrowers in writing of any changes in servicing procedures, such as the collection of late fees.

51. Are there any global settlement offers to non-performers?

Answer: The SBA has notified the borrowers whose loans are in the Sale that their loans may be sold. The SBA will accept payments in full until the Bid Date of August 17, 1999. Any payments made after July 31, 1999 will belong to the successful bidder. Compromise offers that were submitted but not accepted by the SBA are included in the imaged documents.

52. Isn't the loan accelerated once the SBA purchases an asset? Is the first mortgage in 504 loans also accelerated?

Answer: SBA's purchase does not, in itself, accelerate a loan. Accelerations are handled on a case-by-case basis. The first mortgage portion of a 504 loan is separate from the second mortgage portion. It is possible that the first trust loan is performing and the second trust portion is in default.

53. Do you entertain modifications to your form documents, i.e. confidentiality agreement and loan sale agreement?

Answer: The SBA will not accept modifications to these documents, because of the potential of treating bidders disparately.

54. How static are the loan pools' population during the due diligence period?

Answer: There is the possibility that a limited number of loans will move from one pool to another during this period. In addition, some loans may drop out of the portfolio.

55. What will be SBA's policy regarding loan modifications during diligence period?

Answer: The SBA imposed a freeze date of July 2, 1999 after which loan modifications will not be permitted.

56. What type of system is being utilized to service the loans? Are all the offices on the same system?

Answer: The majority of the loans in the Sale are serviced by the SBA using an in-house servicing system. All the SBA field offices are using the same system. Fewer than 100 loans are being serviced by an entity other than the SBA.

57. Does the term "Evaluation Material" as used in the Confidentiality Agreement include information that is part of the public domain?

Answer: For purposes of the Confidentiality Agreement, the term "Evaluation Material" will not include information which (i) is or becomes generally available to the public other than as a result of a disclosure by Bidder; (ii) was already in Bidder's possession prior to its receipt from the SBA; and (iii) becomes available to Bidder on a nonconfidential basis from a third party, other than from the SBA, who, insofar as is known to Bidder, is not

prohibited from transmitting the information to Bidder by a contractual, legal or fiduciary obligation to the SBA.

58. Does Section 4 of the Confidentiality Agreement preclude a bidder from contracting with third parties to provide due diligence information to prepare a bid?

Answer: In preparing their bids, the Confidentiality Agreement does not prohibit Bidders from contracting with third parties to provide (i) title searches; (ii) Broker Price Opinions; (iii) appraisals; (iv) real estate tax information; and (v) updated financial information on borrowers, obligors and guarantors.