

# 9/11 FUNDS

## Scrutiny of SBA database uncovers loans given to businesses that never wanted them

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As farmers in western South Dakota faced another year of drought, I decided to use some precious enterprise reporting time and look at the Small Business Administration's disaster loan database I had obtained from NICAR.

As I looked at the businesses approved for disaster loans, imagine my surprise when I discovered a South Dakota country radio station had received a loan tied to the World Trade Center terrorist attacks more than 1,700 miles away in New York City.

I called Frank Bass, the AP's director of computer investigation whom I had met at the 2004 CAR Conference in Cincinnati. He downloaded the same database and found even more puzzling borrowers of the disaster loans tied to the 9/11 attack: a pet boutique in Utah, a perfume bar in the Virgin Islands and a gun dealer in Guam.

The program's guidelines stated that each of the 10,000 borrowers had to submit a brief statement conveying how they were affected by the attacks. While we wanted to file FOIA requests for all of them, we soon discovered that we would have to submit separate requests for the SBA's four regional offices, which could take quite a bit of time. So, we picked the most interesting recipients out of the database and about a month later information began trickling in.

Some of the requests were barely touched by the dreaded redacting marker. Others were nearly covered by the black ink. (We appealed the most unusable batch.)

### Internet Resources

Facts on International Relations and Security Trends (FIRST) is a joint project of the International Relations and Security Network (ISN) and the Stockholm International Peace Research Institute (SIPRI). FIRST provides an integrated database system containing clearly documented information from the field of international relations and security, taken from research institutes around the world. (<http://first.sipri.se>)

NewsLab is a nonprofit resource center for television and radio newsrooms focused on training and research. NewsLab's homeland security Web page ([www.newslab.org/links/homelandsecuritylinks.htm](http://www.newslab.org/links/homelandsecuritylinks.htm)) provides an extensive list of Web resources for investigating homeland security.

Project on Government Oversight (POGO) was founded in 1981, and is an independent nonprofit organization that investigates and exposes corruption in the federal government. Among other things, its Web site lists the latest stories on homeland security at [www.pogo.org/p/x/archivesecurity.html](http://www.pogo.org/p/x/archivesecurity.html).

### Curveballs ahead

Our story caught the interest of John Solomon, an investigative AP editor in Washington, D.C. He was putting together a multimedia investigative team and had hired Bass as one of his reporters. The SBA loan story would be the team's first major effort complete with video, audio, graphics and multimedia elements.

We began talking to the businesses that had received the loans, including a Maine broccoli farm and a Maryland skydiving school. We found that companies far removed from the disaster areas received about \$1 billion in loans from the SBA.

But just when we thought a run date might be in our future, we were hit by curveball No. 1: We discovered another \$3.7 billion in SBA Sept. 11 loans – more than triple our original amount.

The loans came from the SBA's Supplemental Terrorism Activity Relief (STAR) program, an offshoot of the agency's standard business loan program. The SBA let banks lend the money to businesses while it guaranteed the loans from default. The agency said a business only had to show an indirect tie to the attacks, and it left it up to banks to decide whether a company was eligible.

Bass requested the SBA database, which arrived in about two weeks. But we were now looking at nearly 19,000 loans, totaling \$4.9 billion. We put together an abbreviated spreadsheet – business name, business type, address, city, state, ZIP code, date of loan and amount for each borrower – and sent a copy of the spreadsheet to AP bureaus in every state. In addition, we created an online database so members could localize their own stories.

The bureau reporters had just started working on their state sidebars when we were hit by curveball No. 2: Borrowers from all over the country were denying they received any Sept. 11 loans.

Was the database wrong? Would we have to scrap the entire project or at least scale it back to the original focus? Was I going to have to cancel my vacation to Florida that was already paid for?

No, no ... and definitely no.

Persistent reporters such as Carrie Spencer in Ohio and Stephanie Stoughton in Virginia helped uncover the fact that

scores of businesses that went to the SBA seeking general business loans were unknowingly put into the STAR loan program.

The SBA said it may have happened when some banks were less strict with the guidelines, hinting that ulterior motives were at work. But banks we contacted insisted they followed the rules and did nothing wrong.

Banking officials said the agency encouraged the industry to use the STAR program liberally, especially when its normal guaranteed lending program was hit by steep budget cuts in 2002. The president of the National Association of Guaranteed Lenders said an SBA official told lenders at an association conference that if they could not find a reason to move a loan into STAR, she would help them find a reason.

### Wealth of information

Great interviews started pouring in from the bureaus. Many business owners were appalled their loan was pulled from a pool set aside for those affected by 9/11. Many said they would not have taken the money if they had known.

By this time, we had a wealth of great information and that is where Solomon's skill as an editor really paid off, helping us cut to the chase:

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.

Even before it landed on front pages across the country on Sept. 11, the package held the top spot on Yahoo! News for hours. The mainbar was accompanied by more than three dozen state AP sidebars packed with closer-to-home examples.

Within 24 hours of its publication, Sens. Olympia Snowe, chairwoman of the Senate Small Business and Entrepreneurship Committee; John Kerry, the ranking committee Democrat; and Hillary Rodham Clinton were calling for an investigation.

The SBA's head of public affairs called me saying the piece was a hack job, while the agency head contended our story was "rife with errors." But when asked to specify those errors, the agency head backed off, calling the reports "sensational and distorted."

We spent considerable time during the two weeks after the piece ran firing letters back and forth specifying

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our accuracy.

A banking industry official said if our purpose was to ensure that businesses wiped out by Hurricane Katrina would be afraid to apply for help, then we were successful.

We continue to do follow ups. The latest piece revealed that \$245 million from the main Economic Injury Disaster Loan (EIDL) effort – the \$1.2 billion program – have been charged off, liquidated or are at least 60 days delinquent. It is the largest disaster recovery failure amount in history, nearly double the \$122 million defaulted upon for businesses awarded disaster loans in the wake of the 1992 Los Angeles riots.

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## Stories from the IRE RESOURCE CENTER

- **Story No. 20865.** "Anti-Terror Funds Buy Wide Array of Pet Projects," by Jo Becker, Sarah Cohen and Spencer Hsu, *The Washington Post*. This story traced the path of the region's first wave of homeland security aid from its distribution through its final use, a trail that has been largely unexamined by federal regulators. The reporters found that much of the \$324 million directed to the Washington region after the 9/11 terrorist attacks remained unspent or funded projects with questionable connections to homeland security. The analysis included a review of contracts, grant proposals and purchasing databases. (2003)
- **Story No. 22060.** "Aloha Al Qaeda," by Brian Ross, Rhonda Schwartz, Maddy Sauer and Simon Surowicz, ABC News Primetime Live. ABC delves into wasteful spending by the Department of Homeland Security. Among other scenes is outgoing secretary Tom Ridge lounging by the pool at a resort in Hawaii while staffers swim and snorkel nearby, all on a working day and at taxpayers' expense. (2004)
- **Story No. 21593.** "Ethical Breaches by Homeland Security Nominee Bernard Kerik," by Russ Buettner, *New York Daily News*. Buettner reveals that the New York correction commissioner Bernard Kerik accepted a number of gifts and cash, and failed to file proper public disclosures. The Secretary of Homeland Security nominee was accused of several additional indiscretions. Just before the stories were to be published, Kerik withdrew his nomination and eventually resigned from Rudolph Guiliani's consulting firm. (2004)
- **Story No. 21708.** "Homeland security spending leaps to \$110 million a year in Pennsylvania," by Tim Darragh, *The Morning Call* (Allentown, Pa.). Homeland security spending in Pennsylvania increased 100-fold over four years, transferring disaster preparedness from an afterthought of county government to big-budget, high-tech operations. (2004)
- **Story No. 21353.** "Missing plan to protect the homeland," by Sean Holstege, Michele Marcucci, Mike Oliver and Ian Hoffman, *The Oakland (Calif.) Tribune*. Throughout California, officials deal with the misappropriation of homeland security funding. Some of the smaller counties used the anti-terrorism funding for such minor repairs as fixing courthouse doors. (2004)
- **Story No. 20855.** "Tossed Out of America," by Flynn McRoberts, Cam Simpson and Liz Sly, *Chicago Tribune*. The *Tribune* followed a planeload of Pakistani men deported from the United States to examine the effectiveness and impact of counter-terrorism programs implemented by the Bush administration. The investigation found that the programs cause rifts and tension between governments and within cultures and families. (2003)
- **Story No. 20953.** "Nuclear Smuggling Project," by Brian Ross, Rhonda Schwartz, David Scott, Yoruba Richen and Gerilyn Curtin, ABC News Primetime Live. Major lapses and gaps in homeland security at ports are revealed by smuggling harmless depleted uranium from Jakarta, Indonesia, to Los Angeles. The shipping container was never opened for inspection at any point during its three-week transit. (2003)
- **Story No. 19750.** "Homeland Security," by Steve Kroft, Leslie Cockburn and Sianne Garlick, CBS News 60 Minutes. This investigation reveals the Immigration and Naturalization Service is "afflicted by a culture of mismanagement and corruption." A whistleblower says the agency's executives encouraged inspectors to allow foreigners into the United States without looking up their names in terrorist watch lists. (2002)
- **Story No. 20631.** "Operation Enduring Liberty," "The Cops Are Watching You," "The Big Chill," "Vigilante Justice," "Homeland Security X 50," "Foreign? Suspicious!" and "D.C.'s Virtual Panopticon," by David Cole, Robert Dreyfuss, Marc Cooper, Amy Bach, Eve Pell, Will Evans and Christian Parenti, *The Nation*. This series of articles in *The Nation* follows various aspects of the "war on terror." Several articles touch on the classification of protest groups in America as "terrorists." (2002)
- **Story No. 19050.** "What Terrorists Want," by Nicholas Lemann, *The New Yorker*. After 9/11, terrorism experts came out of the woodwork to say how they think terrorism can be stopped. Lemann looks specifically into the idea of what terrorists want in the first place and how that plays into stopping global terrorism. (2001)

### Some things we learned (and relearned) from the project:

- Do not be tied to the "computer" portion of a computer-assisted reporting project. The heart and soul of the package came from great interviews by reporters. The database gives you the questions, not the answers. It led us to talk with the right people.
- Do not assume all internal memos have to come via a leak from a disgruntled employee. Many useful documents are out there sitting in some Internet directory, and it just takes rewording Google searches until you find the document you are looking for.
- Search LexisNexis and the Internet for industry publications on your subject. The day our story hit the Internet, a banking newsletter publisher sent me an edition with a transcript of the SBA official saying the agency wouldn't "play gotcha" with the STAR loans.
- Do not get too frustrated with having to change course. We came upon detours twice with this project, and both times they led to a better story.
- Do not think there is just one government program that handles all needs. It's a mistake to credit a bureaucracy with that much efficiency. Ask around, then ask around some more. We are quite sure there are more 9/11-related programs around, and all of them bear examination.
- Do not think you have to be a dedicated CAR specialist to work on a project. Most of my time at AP is spent acting as desk supervisor at a control bureau. If you stumble upon a solid story, use whatever time you can each day to move forward on it.