

Here are the questions the Times asked the SBA. After the questions is the response from SBA spokesman Dennis MacKee. His answer refers to a letter from an SBA lawyer; the complete text of that letter is on a separate link.

THE QUESTIONS

1. Dating back to 2000, lawyers and others told the SBA that it was not a qualified institutional buyer of unregistered securities for local governments. In addition, the SBA's own policy said it was not to purchase unregistered (Rule 144A) securities for local governments.

Why then, in July and August of 2007, as the mortgage meltdown spread to financial markets, did the SBA invest at least \$9.5 billion in 12 such unregistered securities for local governments that the agency was not allowed to buy?

2. Why did the SBA ignore its own lawyers' advice and invest in risky QIB-required products for local governments that it was not allowed to invest in? Isn't it true that if the SBA had followed the rules in 2007, it never would have invested in these risky products and no losses would have occurred?

3. From 2002-2007, the SBA had a policy that the local government fund was not to buy Rule 144A securities. What year did that policy go into effect? Between 2002-2007, did the SBA buy any Rule 144A securities without proper federal (QIB) certification?

4. Why did SBA lawyers in 2001 ask the SEC to provide a no-action letter indicating that the commission would not recommend civil or criminal action against the SBA? Was it because the SBA had a potential legal problem because it had bought Rule 144A investments without proper federal (QIB) certification?

5. The SBA revised its local government guidelines on Dec. 21, 2007, the same day that SEC investigators sought the names and accounts of qualified institutional buyers. Were the local government guidelines relaxed to justify the SBA's prior unauthorized purchases of Rule 144A securities?

6. After the problems with the local government pool, a number of state officials blamed Wall Street and pushed for a no-holds-barred investigation and lawsuits to get the state's money back. Yet to date, no lawsuit has been filed. Why not?

7. Several experts said Florida never aggressively pursued Wall Street because the state itself had "unclean hands." In other words, the SBA doesn't have a case because even if Wall Street misled Florida, the state was complicit itself and may have violated federal law by misrepresenting its QIB status or buying securities it was not allowed to buy. Please comment.

RESPONSE FROM SBA SPOKESMAN DENNIS MACKEE:

Please see the attached response to your questions.

If you desire to write a full and well-balanced story I've included some highlights of the changes made to the lgip since 2007 for your use. Since 2007 the SBA has:

1. Established independent daily valuation of LGIP holdings by an external custodian (BNY Mellon) and daily comparison of amortized cost to market value.
2. Outsourced LGIP and Fund B portfolio management to an external investment advisor, Federated Investors, with extensive experience investing registered 2a-7 vehicles and government investment pools.
3. Maintained an S&P AAAM rating for the LGIP since December 2007.
4. Adopted new Investment Policy Guidelines for LGIP, including incorporating the 2009 proposals for Investment Company Institute Money Market Working Group, after review by Ennis, Knupp + Associates and input from Investment Advisory Council and LGIP Participant Local Government Advisory Council.
5. Established new LGIP Reserve & Gain/Loss Policies.
6. Instituted daily pre-trade and post-trade compliance processes at Federated Investors with formalized escalation of compliance exceptions to SBA's Investment Oversight Group, Executive Director & CIO, and Trustees and a requirement for immediate notice to clients of any "material event."
7. Created a LGIP Participant Local Government Advisory Council that conducts quarterly publicly noticed meetings to review the management of the LGIP.
8. Expanded resources in SBA's Internal Audit, Enterprise Risk Management and compliance, including hiring an external compliance consultant for recommendations to close the gap between SBA practices and registered investment advisor requirements.
9. Instituted monthly Trustees approval of a Management Summary Report and quarterly reporting to the Joint Legislative Auditing Committee.
10. Instituted annual Trustees certification that LGIP is in compliance with requirements of Florida Law and the management of LGIP is in accord with best investment practices
11. Instituted an annual financial audit of the LGIP by Florida's Auditor General.