

**Effectiveness and Timeliness of the Hurricane Sandy
Disaster Loan Closing and Disbursement Processes**



***Final Report
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**U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416**

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To: James Rivera, Associate Administrator
Office of Disaster Assistance

Subject: Effectiveness and Timeliness of the Hurricane Sandy Disaster Loan Closing and Disbursement Processes

This report presents the results of our audit of Hurricane Sandy disaster loan closing and disbursement processes. Our objective was to determine whether these processes were timely and effective. To answer our objective, we reviewed these processes to determine whether all required closing documents were being obtained, all required closing steps were being performed prior to disbursement, and whether the SBA met its strategic goal of making initial disbursements within five days or less after receipt of executed closing documents.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Based on the results of this audit, this report contains no reportable conditions or recommendations. No further action or response by the SBA is required.

We appreciate the courtesy and cooperation the SBA extended to the staff during this audit. Please direct any questions to me at (202) 205-6587 or Andrea Rambow, Acting Director, Credit Programs Group at (202) 205-4428.

/s/
Robert A. Westbrook
Deputy Inspector General

Executive Summary

Effectiveness and Timeliness of the Hurricane Sandy Disaster Loan Closing and Disbursement Processes

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What the OIG Reviewed

This report presents the results of our audit of Hurricane Sandy disaster loan closing and disbursement processes. Our objective was to determine whether these processes were timely and effective. To answer our objective, we reviewed these processes to determine whether all required closing documents were being obtained, all required closing steps were being performed prior to disbursement, and whether the SBA met its strategic goal of making initial disbursements within five days or less after receipt of executed closing documents.

To achieve these objectives, we reviewed a random, statistical sample of 120 Hurricane Sandy disaster loans approved on or before January 31, 2014. We identified the SBA's completion time goals for preparing and printing loan closing documents following loan approval and for disbursing loan funds following loan closing. We evaluated a statistical sample of loans to determine whether the SBA met its stated completion time goals for the loans. Finally, we conducted site visits at the Fort Worth Processing and Disbursement Center and interviewed staff assigned there.

What the OIG Found

We found that the SBA closed and disbursed Hurricane Sandy disaster loans in compliance with established procedures and performance standards. We determined that the SBA obtained all required closing documents during the closing process and all steps for each disbursement were performed as required. We also determined that after receipt of executed closing documents from the borrowers, the SBA made initial disbursements within its strategic goal of five days after receipt of executed closing documents.

The audit did not identify significant concerns regarding the disaster loan closing and disbursement processes.

Conclusions

Based on the results of this audit, this report contains no reportable conditions or recommendations. Agency comments to this report are not required nor is any further action by the SBA required.

Other Matters

During the audit, we identified opportunities for management consideration which may further reduce overall loan disbursement times. Specifically, we believe the SBA could significantly reduce overall loan closing and disbursement times if it obtained certain documents from borrowers earlier in the application process.

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Introduction

This report presents the results of our audit of Hurricane Sandy disaster loan closing and disbursement processes. Our objective was to determine whether these processes were timely and effective. To answer our objective, we reviewed these processes to determine whether all required closing documents were being obtained, all required closing steps were being performed prior to disbursement, and whether the SBA met its strategic goal of making initial disbursements within five days or less after receipt of executed closing documents.

Background

On October 29, 2012, Hurricane Sandy made landfall in southern New Jersey. The massive storm affected several states along the east coast. Subsequently, the President issued thirteen major disaster declarations for Hurricane Sandy. As of July 2014, the SBA has approved 36,883 Hurricane Sandy disaster loans totaling approximately \$2.48 billion. Disaster home loans accounted for 32,652 of the applications approved, totaling approximately \$1.97 billion. Disaster business loans accounted for 4,018 loans, totaling approximately \$449.3 million. The remaining Hurricane Sandy approved loans were for non-profit organizations. Of the total 36,883 approved Hurricane Sandy disaster loans, 16,520 were cancelled and 20,156 loans were disbursed, totaling approximately \$803.3 million. This represents 17,698 home loans disbursed at a total of approximately \$568.1 million and 2,354 business loans disbursed, totaling approximately \$214.4 million. An additional 104 non-profit loans totaling approximately \$20.7 million were also disbursed.

The SBA's Processing and Disbursement Center (PDC) is located in Fort Worth, TX. The Application Processing Department at the PDC receives loan applications and recommends loan approval if the applicant meets eligibility standards and possesses repayment ability. Following loan approval, the PDC Accounts Department is responsible for loan closing and disbursement. Upon final disbursement, the loan is transferred to one of two SBA disaster loan servicing centers.

During the closing process, approved loans not secured with collateral are sent directly to the PDC Legal Services Department for closing document preparation. Secured loans recommended for approval are submitted to attorneys who ensure the loan is in compliance with federal regulations, state law and the SBA Standard Operating Procedure (SOP). If an attorney detects an error, the loan is returned to the Application Processing Department for correction. A secured loan submitted to the PDC Legal Services Department for review is referred to as an "obligation."

Attorneys determine which documents are necessary to close the loan and prepare a loan closing checklist. For example, certain documentation is required to verify the legal ownership of the property pledged to secure the loan. The borrower must provide documentation verifying the signatory authority of the person signing the loan documents on behalf of a business and the borrower must provide certificates of good standing for the business. The SBA typically requests all of these documents from the applicant after the loan funds are obligated.

This audit focused on the closing and disbursement process from the time the loan was obligated until the time the final closing documents were prepared.

Results and Conclusion

Our audit did not disclose any reportable conditions.

We obtained a list of all approved Hurricane Sandy loans from the Disaster Credit Management System Operations office with an approval decision no later than January 31, 2014. We reviewed a sample of 120 loans. We found that the SBA closed and disbursed Hurricane Sandy disaster loans in compliance with established procedures and performance standards. We determined that the SBA obtained all required closing documents during the closing process and all steps for each disbursement were performed as required. We also determined that after receipt of executed closing documents from the borrowers, the SBA made initial disbursements within its strategic goal of five days after receipt of executed closing documents. We found that, on average, the SBA made initial disbursements within 2.1 days for disaster business loans and 2.3 days for disaster home loans.

Other Matters

During the audit we identified opportunities for management consideration, which may further reduce overall loan disbursement times. Specifically, we believe the SBA could significantly reduce overall loan closing and disbursement times if it obtained certain documents from borrowers earlier in the application process.

According to the SBA's SOP 50 30 7, if a specific item is needed either to confirm eligibility or to facilitate the preparation of loan closing documents, but was not obtained at the time of application, the SBA must prepare a conditional commitment letter. Items commonly needed for this purpose include, but are not limited to, a copy of the following documents:

- real estate deed that includes a complete legal description;
- current vehicle registration to the damaged vehicle;
- title or the equivalent legal documentation to the damaged manufactured home;
- lease or rental agreement;
- Certificate of Documentation or Registration for the vessel;
- Limited Liability Entity operating agreements;
- condominium association governing documents;
- trust agreements; and,
- marriage or death certificates.

The SOP does not require the SBA to obtain these documents from borrowers until the time of closing. Some of these documents, such as property deeds, may not be in a borrower's possession and may take additional time to obtain.

Approximately 73 percent of the disaster business borrowers from our review sample waited an average of 37 days for closing documents to be issued. In addition, 30 percent of home owners waited an average of 11 days for their closing documents. We found that when the SBA had all necessary loan documents at the time of approval, it took the Accounts Department one day, on average, to prepare the closing documents. Therefore, had the SBA requested all essential documents from the borrowers earlier in the application process, the Accounts Department could have issued the closing documents in an average of one day.

We reviewed a statistically valid, random sample of 30 disbursed Hurricane Sandy business loans. Of these, 22 loans were initially missing one or more documents necessary to prepare the closing documents. Based upon our review of the sampled loans, we determined that the primary document missing from the files that was necessary prior to preparation of the closing documents was the Certificate of Existence or Good Standing. We found that 17 of the 30 loans from our review sample were missing this document at the time the loan was approved. Other documents we found that the SBA needed prior to preparing the closing documents, but did not have, were the tax search letter, articles of incorporation, and the legal and vesting report.

The table below provides the type of documents we identified from our sample review of disbursed business loans that the SBA frequently needed before it could prepare the closing documents. The table also indicates whether the documents were requested from the borrower or a third party contractor.

Table 1. Audit Sample Loan Documents Needed for Closing for Disbursed Business Loans

Document Type	Number of Sampled Loans Missing the Document (N=30)	Provided by:
Certificate of Existence/Certificate of Good Standing	17	Borrower
Tax Search Letter	9	Borrower
Articles of Incorporation/Operating Agreement	8	Borrower
Legal and Vesting Report	5	Third Party Contractor

We determined that the SBA required the business loan borrowers in our sample to provide the Certificate of Existence or Certificate of Good Standing, the articles of incorporation and operating agreement, and the tax search letter. However, the SBA did not request these documents from the borrowers until it had approved the loans and was about to prepare the loan closing documents. The SBA used a contractor to obtain the legal and vesting report. If the SBA had requested the borrower provide documents at the time of application, the overall loan disbursement time could be significantly reduced.

We also reviewed a statistically valid, random sample of 30 disbursed Hurricane Sandy disaster home loans. We found that 9 of 30 loans from our sample were missing one or more documents necessary to prepare the loan closing documents. For six of these nine loans, preparation of the disaster home loan closing documents was delayed due to waiting for documents that the SBA requested from the borrowers. Three loans were delayed solely due to receipt of the legal and vesting report, which the SBA obtains from a third party contractor.

The table below lists the type of documents we identified from reviewing a sample of 30 Hurricane Sandy disbursed home loans that the SBA frequently needed before it could prepare the closing documents. The table also indicates whether the documents were requested from the borrower or a third party contractor.

Table 2. Audit Sample Loan Documents Needed for Closing for Disbursed Home Loans

Document Type	Number of Sampled Loans Missing the Document	Provided by:
Legal and Vesting Report	5	Third Party Contractor
Deed	3	Borrower
Death Certificate	3	Borrower
Auto Registration	1	Borrower

For both disaster business and home loans, the preparation of loan closing documents was delayed due to awaiting the receipt of documents the SBA requested from the borrowers after the loans were approved. Had the SBA requested the documents from the borrowers early in the application process, the business closing documents could have been prepared an average of 36 days earlier and the home loan closing documents could have been prepared an average of 10 days earlier. Notifying borrowers at the time of application that these documents would be required to obtain the loan would enhance the SBA's efficiency of providing disaster loans and would facilitate more rapid disaster recovery for the affected borrowers.

Based on the results of this audit, this report contains no reportable conditions or recommendations. No further action or response by the SBA is required.

Appendix I: Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The scope of the audit was limited to a review of the timeliness and effectiveness of Hurricane Sandy disaster loan closings and disbursements. To achieve the audit objectives, we obtained a universe of approved Hurricane Sandy loans from the Disaster Credit Management System (DCMS) Operations office. The data received contained a comprehensive list of all approved Hurricane Sandy disaster loans with an approval decision no later than January 31, 2014. We identified 36,792 ¹approved Hurricane Sandy loans. We then stratified the universe of Hurricane Sandy loans into four sub universes: Disbursed Home Loans, Disbursed Business Loans, Undisbursed Home Loans, and Undisbursed Business Loans. A loan was determined to be disbursed or undisbursed depending on its status as of March 26, 2014. We considered sample loans with a first disbursement occurring after that date to be undisbursed loans.

During the audit survey, we tested each sample loan to determine whether the closing and disbursement process was effective. Specifically, we verified whether all required closing documents were obtained during the closing process and whether all steps for each disbursement were performed as required. Because we did not find any significant concerns with the effectiveness of the disbursement process, we did not further test this area during the audit fieldwork.

As part of our survey work, we also determined whether the Agency had established goals for accomplishing loan closing and disbursement within a specific time period. Additionally, we determined whether agency had completion time goals for accomplishing each of the sequential steps between loan approval and final disbursement and analyzed the time elapsed from approval to final disbursement for the 25 loans in our audit sample. Further, we evaluated whether the SBA met the established goal, whether the time elapsed was reasonable, and whether there were opportunities to reduce the time necessary to accomplish any of the steps within the process. We broke the closing and disbursement process into the following eight steps:

1. Approval to Pre-Print Queue
2. Pre Print Queue to Loan Closing Documents Sent
3. Loan Closing Documents Sent to Loan Closing Documents Received
4. Loan Closing Documents Received to Initial Disbursement
5. Initial Disbursement to 2nd Disbursement
6. 2nd Disbursement to 3rd Disbursement
7. 3rd Disbursement to 4th Disbursement
8. 4th Disbursement to 5th Disbursement

We compared the amount of time necessary for each loan from our audit sample to progress from “Pre-Print Queue” to “Loan Closing Documents Sent” with the Agency’s goal of three days and found that the

¹ Subsequent to January 31, 2014, the SBA approved additional Hurricane Sandy loans. However, the list of Hurricane Sandy loans we audited included only those loans approved as of January 31, 2014.

Agency met this goal for each of the 25 sampled loans we reviewed during the audit survey. We also compared the time from “Loan Closing Documents Received” to the “Initial Disbursement” with the Agency’s goal of five days and determined that the time elapsed for each sample loan met or exceeded the goal. Further, we analyzed the elapsed time between “Loan Closing Documents Sent” and “Loan Closing Documents Received,” as well as the gap between subsequent disbursements and found that delays between these stages were generally borrower driven.

Although there is no specific goal for proofing a loan and then forwarding it to “Pre-Print Queue” following loan “Approval,” in analyzing the time elapsed between these two steps, we considered a period of five days or longer to be excessive. Nearly one-half, or 48 percent of the loans we reviewed during the audit survey, had an elapsed time of five days or longer from “Approval” to “Pre-Print Queue.” Because we considered this timeframe excessive, we focused our audit fieldwork upon identifying the cause or causes of the time delays we observed in the audit sample between “Approval” and “Pre-Print Queue.” We increased the number of loans reviewed to 120 (30 from each of the following four groupings – disbursed home loans, disbursed business loans, undisbursed home loans, and undisbursed business loans). We reviewed the approval notification letters and conditional approval letters sent to borrowers upon loan approval and identified the documents commonly required for final approval. Additionally, we reviewed the loan officers’ comments annotated in the electronic recordkeeping system to ascertain when the SBA received the requested documents from the borrowers. We also performed site visits at the Fort Worth Processing and Disbursement Center and interviewed key personnel. Further, we reviewed the PDC Account Side Playbook document, which provides an overview of the PDC Accounts Department responsible for the closing and disbursement of disaster loans.

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this audit.

Review of Internal Controls

The Office of Management and Budget (OMB) Circular A-123 provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls.

The scope of this audit was limited to a review of the Hurricane Sandy disaster loan closing and disbursement process. Therefore, we limited our assessment of internal controls to an evaluation of the controls governing disaster loan closing and disbursement. We determined the controls governing closing and disbursement were adequate and effective; however, the overall efficiency of the closing process could be improved by implementing controls to obtain specific documents, required prior to closing, earlier in the loan approval process.

Use of Computer-Processed Data

We relied on data provided by the DCMS Operations office that was generated from DCMS. The DCMS Operations office identified the disaster loan approvals for Hurricane Sandy approved not later than January 31, 2014. We believe the information is reliable for the purposes of this audit.

Prior Coverage

U.S. Government Accountability Office Audit Reports

Report GAO-06-860, Small Business Administration, *Additional Actions Are Needed to Provide More Timely Disaster Assistance*, issued July 2006.

Report GAO-07-114, Small Business Administration, *Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, issued February 2007.

Report GAO-07-1124T, Small Business Administration, *Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness*, issued July 25, 2007.

Report GAO-09-755, Small Business Administration *Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, issued July 2009.

Report GAO-10-735T, Small Business Administration *Continued Attention Needed to Address Reforms to the Disaster Loan Program*, issued May 19, 2010.

Small Business Administration-Office of Inspector General Reports

Audit Report 13-10, *The Small Business Administration Did Not Effectively Assess Disaster Assistance Staffing Requirements, Availability, and Readiness*, issued January 25, 2013.