

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's Reporting of Loan Data to a Commercial Credit Reporting Agency



Management Advisory

Report 23-13

September 21, 2023



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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments will be appended to this report and posted on our public website.




**OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

MEMORANDUM

Date: September 21, 2023

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware
Inspector General 

Subject: SBA's Reporting of Loan Data to a Commercial Credit Reporting Agency
(Report 23-13)

The Office of Inspector General (OIG) is issuing this management advisory to bring to your attention concerns regarding the U.S. Small Business Administration's (SBA) Reporting of Loan Data to a Commercial Credit Reporting Agency. These issues require immediate attention and action by SBA to ensure the commercial loan data it provides to Experian can be effectively incorporated into Experian's commercial credit database and analyzed. If this advisory contains proprietary information or other information not appropriate for public release under applicable law, it may be redacted before we post it.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Bailey DeVries, Associate Administrator, Office of Investment and Innovation, and
Acting Associate Administrator, Office of Capital Access
Dilawar Syed, Deputy Administrator
Arthur Plews, Chief of Staff
Peggy Delinois Hamilton, Esq, Special Counsel for Enterprise Risk
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Cynthia Pitts, Acting Director, Office of Continuous Operations and Risk Management
Tonia Butler, Director, Office of Internal Controls
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Background

When a business applies for a loan, lenders review business credit reports to assess the applicant's creditworthiness. Experian, as one of the three primary commercial credit reporting agencies, collects data on millions of businesses and combine the data to create business credit reports and calculate a credit rating. Experian's business credit database alone contains more than 30 million credit-active business information reports. These business credit reports are used when businesses apply for a business loan, establish payment terms with a new vendor, or obtain any type of business credit.

Federal regulations¹ and guidance² require the Small Business Administration (SBA) to report commercial accounts to credit reporting agencies, regardless of current or delinquent status. The *Treasury Financial Manual* requires that the data be provided to credit agencies on a nonexclusive basis.³ SBA reports commercial credit data to two of the major commercial credit reporting agencies on a quarterly basis and to the other major reporting agency on a monthly basis. While SBA is not specifically required to report commercial credit data to Experian, it has historically done so.

SBA's commercial credit reports include current loans from across its loan portfolio, including its direct lending programs — such as disaster assistance — and delinquent loans from its traditional 7(a) and 504 programs. SBA also reports data from its pandemic loans, such as charged-off⁴ Paycheck Protection Program (PPP) loans and both current and delinquent COVID-19 Economic Injury Disaster Loans. During the Coronavirus 19 (COVID-19) pandemic, the number of approved SBA loans significantly increased from 100,495 in fiscal year (FY) 2019 to 9,231,185 in FY 2020 and 7,332,358 in FY 2021. The extension of significant amounts of additional capital led to SBA reporting over 3.6 million loans to Experian in its commercial credit file for the fourth quarter of 2022.

¹ 31 C.F.R. 901.4, Reporting Debts.

² *Treasury Financial Manual*, Volume I, Part 3, Chapter 4000, Section 4040.10, Requirements for Reporting Current and Delinquent Commercial Debts; OMB Circular A-129, Chapter IV, Section B, Loan Servicing Requirements.

³ *Treasury Financial Manual*, Volume I, Part 3, Chapter 4000, Section 4040.30, Method and Format for Reporting Commercial Debts.

⁴ Charge-off is an SBA administrative action that reclassifies a loan from "liquidation" to "charge-off" status and the agency removes the outstanding balance of the loan from its accounting records. It has no impact on an obligor's liability for the loan balance.

In addition to reporting commercial credit data to Experian, SBA officials stated they use data from Experian to determine whether an applicant is creditworthy for its disaster loan programs. Lenders are also required to consider creditworthiness when extending capital for SBA-guaranteed loan programs.

SBA Loan Data Not Used by Experian

SBA provided Experian its commercial loan data; however, SBA was unaware that Experian had not analyzed or incorporated this loan data into its commercial credit files from October 2018 to June 2023. According to Experian, it could not use the data because in 2018, SBA did not submit it timely. Experian stated that SBA needed to validate the integrity of the data before it could resume using it. Experian employees made several attempts to apprise SBA of this issue; however, they were unable to reach an SBA point of contact. SBA and Experian did not have an established communication protocol or a current written agreement outlining the method for and frequency of reporting commercial credit loan data. As a result, there is increased financial risk to SBA and lender loan portfolios, as creditworthiness is being determined without complete data for both direct and SBA-guaranteed loans.

As of December 31, 2022, SBA's quarterly commercial credit file contained 3,604,337 unique loans with a combined principal balance of \$361 billion. Of the 3,604,337 loans, 63,659 were delinquent PPP loans, with a combined principal balance of \$1.8 billion. SBA reported all of these loans to Experian; however, Experian was unable to incorporate these loans into its commercial credit database. According to Experian, it stopped using SBA's loan data in 2018 because SBA was not submitting the data timely. Once a credit file is not received timely, Experian will not use the file until SBA validates the integrity of the data even if it receives another report in the following quarter.

Throughout 2019 and 2020, as part of their data integrity process, Experian attempted to request SBA revalidate the submitted file. However, after 12 attempts to contact the agency during this timeframe, including at least 9 phone calls made or emails sent about missing files or data validations, Experian did not receive a response.

According to both SBA and Experian officials, neither knew who the responsible points of contact were in the other's organizations. The Government Accountability Office (GAO) recommends that management define responsibilities, assign them to key roles, and delegate authority to

achieve the entity's objectives.⁵ In addition, SBA contractor employees were primarily responsible for transmitting commercial credit reports and corresponding with Experian, even though they did not have the authority to communicate directly with Experian without oversight from SBA employees.

Further, although Experian officials acknowledged that they continued receiving SBA commercial credit files periodically from 2019 to June 2023, SBA officials were unaware that Experian was not using its loan data prior to our review. During our review, we brought this issue to SBA's attention. Subsequently, SBA officials stated that they met with Experian officials to discuss the communication and reporting issues and identify corrective actions.

GAO also recommends that effective internal controls include open two-way external reporting lines to communicate quality information so that external parties can help the entity achieve its objectives and address related risks. SBA officials stated that the quarterly commercial credit report transmittals and automated email receipts served as the primary communication between SBA and Experian's commercial credit segment. While GAO recommends that management periodically evaluate the entity's methods of communication, so the organization has the appropriate tools to communicate quality information throughout and outside of the entity on a timely basis, SBA officials stated there was limited need for communication with Experian regarding commercial credit information.

We also found that SBA did not have a written agreement with Experian for reporting commercial loan data. Specifically, SBA did not have a written agreement in place outlining the method for and frequency of reporting commercial credit data. The *Treasury Financial Manual* states that agencies should sign written agreements with credit reporting agencies before reporting any current or delinquent debt to such credit reporting agencies.⁶ The manual also provides procedures that agencies could use as the framework for future agreements covering the reporting of debt information to commercial credit agencies. However, neither SBA nor Experian officials could provide a copy of a written agreement, which Experian believed was initially signed over 35 years ago. In addition, SBA did not have a written agreement with the other major commercial credit reporting agencies as required.

It is critical for SBA and Experian to understand the required format for commercial credit reports and have that understanding documented in an agreement. According to Experian officials, SBA provided a commercial credit report in 2019 using a consumer credit reporting format without any prior coordination. The format SBA used was originally developed only for

⁵ GAO-14-704G, *Standards for Internal Controls in the Federal Government* (September 2014).

⁶ *Treasury Financial Manual*, Volume I, Part 3, Chapter 4000, Section 4030.20, Written Agreement.

reporting consumer debt information to credit bureaus. Although agencies may attempt to use the consumer format for reporting commercial debts, commercial credit reporting agencies can require the use of another format.⁷

Because SBA provided loan data using the consumer format, Experian officials requested clarification regarding the content of the commercial credit files. However, as noted earlier, Experian officials were unable to engage in a dialogue with SBA officials to obtain an understanding of the data. A written agreement outlining the method and format for reporting commercial credit data would reduce the risk of SBA providing the file in a non-standard format. As Experian is one of the three primary commercial credit reporting agencies in the United States, it would be prudent to ensure SBA provides loan data to Experian in an agreed upon method.

Without sufficient communication and coordination with Experian, SBA is missing the opportunity to fully hold delinquent borrowers accountable and increasing the risk that delinquent borrowers could obtain future loans when their creditworthiness could indicate they should not. Additionally, not incorporating complete SBA data in Experian's credit analysis results in inaccurate borrower credit reports. Federal regulations require that an applicant be creditworthy as a condition for approval of SBA business loans.⁸ When approving these loans, lenders, certified development companies, and SBA may consider several factors, including the credit score or credit history of the applicant. SBA officials acknowledged that Experian is the primary source of credit information it uses to determine creditworthiness for disaster loans. Lenders also use credit data from Experian when evaluating loan applications.

The absence of a process to ensure the analysis and incorporation of SBA's commercial loan data into Experian's files increased the risk that loan decisions are made on SBA's direct and guaranteed loans using incomplete information. This also significantly increases the financial risk to other entities extending credit, as borrowers with lower credit scores are more likely to default. Developing consistent communication practices and written agreements with Experian will help ensure borrowers' credit reports are accurate and give SBA and other lenders a more complete picture of an applicant's creditworthiness prior to extending credit.

⁷ *Treasury Financial Manual*, Volume I, Part 3, Chapter 4000, Section 4040.30, Method and Format for Reporting Commercial Debts.

⁸ 13 C.F.R. §120.150.

Suggested Actions for SBA

To ensure SBA provides Experian with complete, accurate, and timely loan data sufficient to be incorporated into Experian's business credit files and establish an applicant's creditworthiness, we suggest the Administrator direct the Acting Associate Administrator for the Office of Capital Access to:

Suggestion 1: Coordinate with Experian to ensure SBA commercial loan data is reported in a manner that can be included in the credit reporting agency's commercial credit files.

Suggestion 2: Establish communication protocols with Experian to address, resolve, and monitor commercial credit reporting issues.

Suggestion 3: Establish a written agreement for reporting loan data with Experian and other major commercial credit reporting agencies, as applicable.

Evaluation of Agency Response

Although a formal response was not required, SBA management provided comments that are included in their entirety in Appendix 1. SBA stated that it reports commercial credit data to all three major commercial credit reporting agencies on a quarterly or monthly basis and has done so for decades. It also reports credit-relevant data to critical government databases, including the Credit Alert Verification Reporting System (CAIVRS) and the U.S. Department of the Treasury's Do Not Pay. SBA management stated that it uses credit scores and reports to support the agency's capital programs and that all these credit reporting systems help ensure that lenders have the data needed to make informed decisions regarding creditworthiness for individuals and small businesses. SBA management stated they have had preliminary meetings with Experian and that their Office of Performance and Systems Management would work with Experian to establish communication protocols to address, resolve, and monitor commercial credit reporting issues.

We will monitor management's actions through our follow-up process.

Scope and Methodology

This report presents the results of our engagement on SBA's Reporting of Loan Data to a Commercial Credit Reporting Agency. We conducted this project to assess SBA's reporting of loan data to Experian and related communication between SBA and Experian. We identified this issue during our Inspection of SBA's Guaranty Purchases for Paycheck Protection Program Loans. To answer our objective, we reviewed laws, regulations, policies, procedures, and guidance pertaining to the reporting of SBA loan data to commercial credit reporting agencies.

We interviewed SBA officials from various offices in the Office of Capital Access, including the Office of Credit Risk Management, Office of Financial Program Operations, and Office of Performance and Systems Management. We also interviewed officials from major commercial credit reporting agencies to gain an understanding of SBA's reporting of loans to those agencies. Further, we analyzed SBA's quarterly loan files sent to the commercial credit reporting agencies in calendar year 2022 to determine the number and amount of loans not incorporated into Experian's database.

This management advisory was prepared in alignment with OIG's quality control standards and the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*, which requires that we conduct our work with integrity, objectivity, and independence.

Appendix 1: Agency Response

U.S. Small Business Administration
Response to Report



U.S. Small Business
Administration

To: Hannibal Ware
Inspector General
U.S. Small Business Administration

From: Sheri McConville
Office of Capital Access
Office of Performance and Systems Management

Subject: Management Response:
SBA's Reporting of Loan Data to a Commercial Credit Reporting
Agency (22013B)

Date: September 13, 2023

SBA reports commercial credit data to all three of the major commercial credit reporting agencies, on either a quarterly or monthly basis, and has done so for decades. SBA also reports credit-relevant data to critical government databases, including the Credit Alert Verification Reporting System (CAIVRS) and the Department of Treasury's Do Not Pay. Further, SBA uses credit scores and reports to support the Agency's capital programs. All these credit reporting systems help ensure that lenders have the data they need to make informed decisions about creditworthiness for individuals and small businesses.

This report highlights an issue Experian encountered in 2018 while ingesting the data SBA reported. The Office of Performance and Systems Management (OPSM) will work with Experian to establish communication protocols to address, resolve, and monitor commercial credit reporting issues. Points of Contact on the both the government and the commercial side have already had preliminary meetings.

Sincerely,

Sheri McConville

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Director of the Office of Performance and Systems Management (Acting)