AUDIT REPORT

SBA NEEDS TO IMPROVE ITS OVERSIGHT OF LOAN AGENTS

September 25, 2015

REPORT NUMBER 15-16

EXECUTIVE SUMMARY

SBA NEEDS TO IMPROVE ITS OVERSIGHT OF LOAN AGENTS

Audit Report
No 15-16

September 25, 2015

What OIG Reviewed

This report presents the results of our audit of the Small Business Administration's (SBA) oversight of loan agents. Loan agents frequently play an important role within SBA lending programs, often facilitating access to capital by connecting borrowers in search of financial assistance with lenders offering SBA products or by providing other services. However, at times, these third-party relationships have resulted in SBA program loss and risk.

Our objectives were to determine the extent to which SBA has (1) identified financial and other impacts resulting from the involvement of loan agents in SBA loan programs and (2) developed controls to effectively track, evaluate, and enforce loan agent participation and performance.

What OIG Found

Since 2005, SBA OIG has investigated at least 22 cases with confirmed loan agent fraud totaling at least $335 million. Further, our analysis determined that loan agents were involved in approximately 15 percent of all 7(a) loans and resulted in increased risk of default. Specifically, 7(a) loans made during 2011, which resulted in the lender paying a referral fee to a loan agent, defaulted at a rate 28 percent higher than loans where no referral fee was reported.

While SBA has strengthened controls over loan agent participation within its loan programs, further improvements in controls are necessary to ensure program integrity and mitigate the risk of fraud and loss.

Since December 1, 2010, SBA recorded over 51,000 7(a) loan agent compensation disclosures, representing a variety of services. However, we found the quality of SBA's loan agent data was poor and materially incomplete. Further, although previously recommended in 1998, SBA had not established effective controls over the tracking and monitoring of loan agent performance and therefore could not adequately assess potential risks or identify problem agents. In 2000, OIG identified loan agent tracking and enforcement as a management challenge. Finally, SBA had not established a method to track loan agents and their compensation on 504 loans.

Officials from SBA's Office of Credit Risk Management (OCRM), who are responsible for oversight and risk management of SBA credit programs, were developing plans to increase loan agent monitoring. The plans include provisions in a proposed OCRM support contract to conduct loan agent analysis—including a loan agent risk assessment plan in 2015—and adding significant loan agent activity as a risk area to its on-site review assessment system. While we commend OCRM's intent to increase oversight of loan agents, SBA's incomplete and inaccurate loan agent disclosure data at the loan level is likely to hinder oversight efforts.

OIG Recommendations

We made nine recommendations that, if implemented, will improve SBA's internal controls and facilitate effective monitoring over loan agent participation and risk mitigation efforts.

Agency Response

SBA agreed with our findings and recommendations. The Agency plans to implement procedures for the regular monitoring of SBA Form 159 data against performance metrics. Further, SBA intends to implement a process for reporting to Agency management and OIG, instances where the monitoring identifies concerning trends or suspected fraudulent activity.

Additionally, SBA plans to review and correct the existing Form 159 data and implement application controls to ensure the integrity of the Form 159 database.

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

Final Report Transmittal
Report Number: 15-16

DATE: September 25, 2015

TO: Maria Contreras-Sweet
Administrator, Small Business Administration

Douglas Kramer
Deputy Administrator, Small Business Administration

Ann Marie Mehlum
Associate Administrator, Office of Capital Access (OCA)

SUBJECT: *SBA Needs to Improve Its Oversight of Loan Agents*

This report presents the results of our audit of the Small Business Administration's (SBA) oversight of lender service providers. The objectives of our audit were to determine the extent to which SBA has (1) identified financial and other impacts resulting from the involvement of loan agents in SBA loan programs and (2) developed controls to effectively track, evaluate, and enforce loan agent participation and performance.

The report contains nine recommendations that SBA agreed to implement. Please provide us within 90 days your progress in implementing the recommendations.

We appreciate the courtesies and cooperation extended to us during this audit.

/s/
Troy M. Meyer
Assistant Inspector General for Auditing

cc: Nick Maduros, Chief of Staff
Melvin F. Williams, Jr., General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
Tami Perriello, Chief Financial Officer
LaNae Twite, Director, Office of Internal Controls

Table of Contents

Introduction

The Small Business Administration (SBA) is authorized under the Small Business Act (Act) to provide financial assistance to small businesses in the form of Government-guaranteed loans.[1] Participating lenders enter into agreements with SBA to make loans to small businesses in accordance with SBA loan program requirements. Lending institutions and loan applicants sometimes use agents to conduct business on their SBA loans. These loan agents play an important role within SBA lending programs, often facilitating access to capital by connecting borrowers in search of financial assistance with lenders offering SBA products or by providing other services. These agents can include attorneys, accountants, consultants, packagers, or lender service providers (LSP).[2]

The Act requires that SBA loan applicants identify any loan agents they utilize. For most matters involving SBA assistance, the Agency requires that the loan agent and lender or applicant have a compensation agreement (Form 159) for services that loan agents have or will render to the applicant or lender.[3] Each agreement discloses the services rendered, entity compensated, and amount charged.[4] While the majority of loan agents receive compensation by providing a beneficial service to these parties, at times, these third-party relationships have resulted in fraud and SBA program losses. Since 1994, there have been at least three significant cases of loan agent fraud that have resulted in Congressional interest and changes to SBA program controls. These cases resulted in hundreds of millions of dollars of fraudulent SBA loans and significant losses to taxpayers.

SBA's focus on mitigating risks associated with the use of loan agents within its loan programs has varied over time as Agency leadership and priorities have changed. In an October 1995 Congressional hearing for the House Committee on Small Business, there appeared to be consensus among Congressional leaders, SBA, OIG, and other industry professionals—including loan agents and lenders—that SBA needed to track and monitor loan agent activities to help detect and prevent fraud. The results of this hearing concluded that the underlying problem with loan agent fraud was that there was no system in place to track loan agents.

SBA has a history of loan agent fraud within its 7(a) Guaranteed Loan Program, as well as prominent cases within its 504 Certified Development Company (CDC) and Disaster Loan Programs. Over the last 20 years, the Agency has made incremental improvements in its ability to prevent loan agent fraud and monitor and track loan agent activities. In fiscal year (FY) 2000, due in part to a pattern of fraud by loan agents in the 7(a) Program, SBA OIG called for effective tracking and enforcement of loan agents, identifying loan agent oversight as a management challenge that continues to this day.[5] The Agency's progress in implementing a robust loan agent registration and monitoring system has been limited by what it has deemed its lack of statutory authority to collect certain personal information from loan agents that would uniquely identify them. While the Agency's response to fraudulent loan agents goes as far back as 1994, SBA only began recording and tracking loan agent information in a searchable format in 2010.

[1] Title 15 U.S. Code Section 636
[2] SBA has proposed rule changes to include parties acting as a referral agent, including the term "broker," in the loan agent definition, as this reflects the lending industry standard terminology.
[3] In some cases, loan agents providing professional services, such as accountants or attorneys, may be excluded from this requirement.
[4] SBA Form 159, *Fee Disclosure Form and Compensation Agreement (SBA 7(a) Loan)*.
[5] Challenge 7 of the *OIG Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration In Fiscal Year 2015* (October 2014).

Prior Work

A 1998 OIG report on loan agents in the Section 7(a) Program noted that SBA could not determine the level of loan agent involvement, even though applicants and lenders were increasingly relying on loan agents.[6] While the increased use of loan agents has helped small businesses gain access to capital, this report stated that poor lender oversight may create an environment susceptible to fraud. Specifically, the report noted that criminal investigations had been initiated on 18 loan agents associated to $123 million of loans in the 7(a) Program alone. This report included multiple recommendations for improving SBA oversight of loan agents, including establishing (1) a loan agent registration process and monitoring system and (2) benchmarks that, if exceeded, would trigger closer SBA examination of a loan agent's performance. In its response, SBA officials at the time shared the concerns identified in the report and stated that they were in basic agreement with its recommendations. However, these recommendations were not implemented due to concerns regarding the information that a registration system could collect, such as social security numbers.

A 2013 OIG report found that SBA lacked a process for monitoring and addressing risk in its loan portfolio. To help SBA balance the need to make capital available to small businesses while mitigating risk for borrowers and taxpayers, OIG recommended that SBA: (1) implement a portfolio risk-management program that analyzes risk across portfolio segments, (2) use data from the portfolio risk-management program to support risk-based decisions in its loan programs, and (3) develop a process within the portfolio risk-management program to ensure additional controls are implemented to mitigate identified risks where necessary.[7] In response to this report, SBA implemented a portfolio risk-management program and stated that it "will continue to conduct portfolio and program delivery analysis on an annual basis to identify additional program risk, specifically as related [to] loan agents and lender service providers." While the Office of Credit Risk Management (OCRM) has implemented a portfolio risk-management program, two recommendations—to use data to support risk-based decisions and to develop a process to implement controls to mitigate risks—remain outstanding.

A 2015 OIG report found that SBA needed to improve its internal controls to ensure LSPs' performance and conduct comply with SBA requirements. While SBA did have some controls in place to identify LSP involvement, it could not adequately determine LSP participation in SBA's programs or evaluate their performance. To help SBA strengthen its controls and mitigate risks associated with LSP participation, OIG recommended that SBA (1) develop a method to identify LSP participation within SBA loan programs and their associated SBA loan portfolios to evaluate performance and (2) establish a formal process and procedures to address referrals related to LSPs. In its response, SBA agreed with the recommendations and is in the process of implementing the recommendations.[8]

Objectives

Our objectives were to determine the extent to which SBA has (1) identified financial and other impacts resulting from the involvement of loan agents in SBA loan programs and (2) developed controls to effectively track, evaluate, and enforce loan agent participation and performance. OIG Report 15-06, *Improvement is needed in SBA's Oversight of Lender Service Providers*, was issued on

[6] SBA OIG, *Loan Agents and the Section 7(a) Program,* Report 98-03-01 (March 31, 1998). This report later served as the basis for the SBA Management Challenge on loan agents.
[7] SBA OIG, *The SBA's Portfolio-Risk Management Program can be Strengthened,* Report 13-17 (July 2, 2013).
[8] SBA OIG, *Improvement is Needed is SBA's Oversight of Lender Service Providers*, Report 15-06 (March 12, 2015).

March 12, 2015 and solely dealt with the second objective. This report is the second of two, and will address both objectives as they relate to SBA's oversight of loan agents, not to include LSPs.

Loan Agent Activity and Impact to the 7(a) Program

As part of our first objective, we focused on the 7(a) Program, where the majority of loan agent activity occurs. The exact level of loan agent involvement in the 7(a) Program is unknown. Agency officials estimated that third-party loan agents were involved in at least 10 percent of 7(a) loans. However, we confirmed multiple instances where lenders did not report loan agent involvement to SBA, which are detailed in Finding 2. We conducted an analysis of the existing Form 159 data and determined that loan agent participation was approximately 15 percent of all 7(a) loans. Further, a recent industry survey noted that 28 of the 70 responding lenders generated at least 25 percent of their SBA 7(a) loan volume from loan brokers.[9] We determined that 14 of the top 30 SBA 7(a) lenders either advertised the use of loan agents or reported significant loan agent activity.[10] We also interviewed eight lenders during this audit. Of the eight lenders that we interviewed, six stated that they viewed loan agents as critical business partners, while seven noted that there were risks associated in dealing with loan agents. The majority of the lenders noted that they would support improved SBA controls such as a loan agent registration system or additional oversight of loan agent activity.

When implementing its loan agent tracking database in 2010, SBA noted that "many lenders utilize loan agents as a means of generating SBA loans" and that it "believes it is prudent to ascertain whether the performance of loans generated by loan agents is different from that of loans generated through a lender's internal lending channels."[11] While performance data is still limited at this time, our analysis determined that 7(a) loans made during 2011, which resulted in the lender paying a referral fee to a loan agent, defaulted at a rate 28 percent higher than loans where no referral fee was reported.

As previously noted, multiple cases of loan agent fraud have occurred within SBA loan programs, drawing Congressional interest and changes to SBA program controls. These cases have resulted in hundreds of millions of dollars of fraudulent SBA loans and significant losses to taxpayers. Further, these cases have often involved change of ownership transactions, which our office has communicated are a higher risk to the Agency.[12, 13]

Since 2005, SBA OIG has investigated at least 22 cases with confirmed loan agent fraud involving 602 SBA loans and totaling at least $327 million in the 7(a) Program and another $8 million in the 504 Loan Program.[14] Table 1 below provides examples of some of the more significant cases of loan agent fraud in the 7(a) Program. OIG is actively engaged in other ongoing cases of potential loan agent fraud.

---

[9] Coleman Report, *7(a) Loan Broker Survey Results* (June 2015). http://colemanreport.com/sba-7a-lender-loan-broker-survey-results.

[10] Based on the number of approved loans from October 1, 2012 through June 30, 2014.

[11] SBA, *Loan Agent Data Submission for 7(a) Loans*, Procedural Notice 5000-1177 (October 1, 2010).

[12] SBA, *Detecting Fraud in Small Business Administration Lending Programs*, Informational Notice 9000-1793 (April 7, 2009).

[13] SBA OIG, *The OIG High Risk 7(a) Loan Review Program Recommends $1.8 Million in Recoveries*, Report 15-09 (March 20, 2015).

[14] See Appendix II, which provides detailed summaries describing the nature and impact of three unique SBA loan agent fraud cases.

Table 1. Significant 7(a) Loan Agent Fraud Cases Since 2005

	Number of Loans	Amount of Loans (Approx.)	Number of Lenders Impacted	Number of Loan Agents
Case Example 1	174	$13,000,000	20	2
Case Example 2	129	$90,000,000	19	2
Case Example 3	58	$41,000,000	12	1
Case Example 4	44	$51,000,000	4	1
Case Example 5	41	$38,000,000	1	5
Case Example 6	31	$23,000,000	1	8

Source: OIG Investigative Management Information System (IMIS)

Although we acknowledge that the amount of confirmed fraud related to loan agents is small when compared to the billions of dollars in overall SBA lending volume during this period, we believe the level of fraud perpetuated by loan agents in SBA loan programs is much higher than the numbers presented in this report.

In order to benchmark SBA's current controls to mitigate this risk, we interviewed five other Federal agencies, or their OIGs, with similar loan programs. The agencies reiterated the important role that loan agents have in the lending industry, as well as the fraud and performance risks that loan agents introduce to Federal-guaranteed loan programs. Specifically, four of the five agencies that we interviewed provided instances of where loan agent fraud had occurred in their loan programs. We also noted that the OIGs for two of these agencies had recently prosecuted multiple cases of significant loan agent fraud. Additionally, the Department of Agriculture's (USDA) Inspector General testified in 2009 regarding its concerns about loan agent participation, stating that lenders originating loans with the assistance of loan brokers to USDA were submitting substandard packages for review.[15] The Inspector General also noted that lenders may be less willing to dedicate resources to loans that will be eventually sold—and might therefore not practice the same due diligence on brokered loans.

[15] United States. Cong. House. Committee on Agriculture. *Hearing to Review Rural Development Programs Operated by the U.S. Department of Agriculture and Status of American Recovery and Reinvestment Act Funds for These Programs.* June, 2009. 111th Cong. 1st sess. Washington: GPO, 2009 (statement of Phyllis K. Fong, Inspector General, United States Department of Agriculture Office of Inspector General).

Finding 1: SBA Needs to Effectively Monitor Loan Agent Participation and Mitigate Risk of Fraud and Loss

Over the last 20 years, SBA has implemented a series of controls to mitigate the risk associated with loan agent participation, and to protect program participants and taxpayers from fraud and abuse. Specifically, the Agency established the following controls:

- Regulations requiring disclosure of loan agent participation;[16]
- Fee disclosure form and compensation agreement (Form 159);[17]
- Requirements for lenders to verify historical financial information against tax transcripts;
- Policies and procedures supporting causes for suspension and debarment of loan agents;[18]
- Database to track Form 159 disclosures for the 7(a) Program, which has the highest amount of loan agent activity;
- Proposed revisions to existing regulations over loan agent revocation and suspension procedures.[19]

However, despite SBA's improvements, its controls were not adequate to monitor loan agent involvement and mitigate the risk of loss and fraud in the 7(a) Program. According to OMB, agencies must have monitoring, diagnostic, and reporting mechanisms in place to provide senior-level policy officials and credit program managers a clear understanding of a program's performance.[20] Such mechanisms should regularly collect, analyze, and report key information and trends and also be sufficiently flexible to deliver any analysis that would help agencies identify and respond appropriately to developing issues in the portfolio.

In line with these requirements, SBA has an established objective in its strategic plan, stating that "…SBA has an extraordinary responsibility to taxpayers to mitigate risk and conduct oversight of its programs." Within SBA, much of this responsibility falls to OCRM. As the SBA office responsible for credit program oversight and risk management, OCRM's mission is to maximize the efficiency of SBA's lending programs by effectively managing program credit risk, monitoring lender performance, and enforcing lending program requirements. In support of its risk management function, OCRM has also been delegated the authority for loan agent enforcement, including suspension and revocation.[21]

While SBA established a method to track loan agent activity from compensation agreement disclosures (Form 159), they had not established procedures specific to monitoring and assessing loan agent activity and risk. Over the last 10 years, SBA developed a number of methods to collect loan agent information in a searchable, electronic format for oversight and risk management purposes with limited success. During this time, the scope of OCRM's loan agent oversight activities has generally been limited to lender on-site reviews. However, according to OCRM officials, the on-site review process could not effectively evaluate loan agent activity and their performance in SBA programs. Further, we determined that although previously recommended, SBA had not established performance metrics to identify loan agent risk.

[16] Code of Federal Regulations, Title 13. *Business Credit and Assistance*, Part 103.5.
[17] SBA Form 159, *Fee Disclosure Form and Compensation Agreement* (SBA 7(a) Loan).
[18] SOP 50 53 (A), *Lender Supervision and Enforcement*.
[19] Federal Register Vol. 79 No 200.
[20] OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* (January 2013).
[21] SOP 50 53 (A), *Lender Supervision and Enforcement* (effective June 1, 2012).

As part of its portfolio risk management program, OCRM stated it will focus on identifying program risks, especially the risks related to loan agents. However, because gathered data has not been reliable (see Finding 2), SBA analyses using data from compensation agreements have been ad-hoc or lender-specific in nature. We determined that an effective system for monitoring and tracking loan agent performance could have limited SBA's exposure to fraud and loss. For example, we analyzed the performance of the loans associated to the six case examples in Table 1. We found that an effective system for monitoring and tracking of loan agent activities could have identified performance trends in at least two of the cases, which could have prevented the approval of additional fraudulent SBA loans and losses.

Even with incomplete and erroneous data, we were able to identify loan agents with concerning performance.[22] In most instances, the loan agents did not appear to be receiving compensation for the origination of new 7(a) loans. However, we noted one loan agent who, despite a history of concerning performance, continued to facilitate the origination of numerous 7(a) loans with different lenders. This loan agent is associated with SBA loans currently under investigation by OIG.

SBA officials noted that they hold the lenders primarily accountable for monitoring the loan agents that they conduct business with. We agree that the primary responsibility for monitoring loan agents rests with the lenders. However, only SBA is in a position to aggregate loan agent portfolios, evaluate their performance, and inform participating lenders about any identified risks or concerning trends. As demonstrated in the significant fraud schemes since 2005, loan agents have targeted multiple SBA lenders, who would be unaware of loan agents' past performance or activity with other lenders.[23] For example, our analysis determined that one loan agent that fraudulently originated $90 million in SBA loans received compensation from at least 19 different lenders.

By compiling loan agent data from across multiple portfolios, SBA could provide much-needed insight and oversight. For example, the Department of Housing and Urban Development (HUD) has developed a model that can assist both the Agency and participating lenders in their oversight activities. According to HUD officials, they collect loan agent data in their borrower forms and are able to aggregate the data to provide a searchable portal to be used by their participating lenders. The portal contains performance metrics for various types of agents that are active in HUD programs. Additionally, HUD officials noted that they felt that it was prudent to present the performance information for use by lenders, who they ultimately hold accountable.

According to the Government Accountability Office (GAO), internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Additionally, revised guidance from GAO, effective in 2016, states that management analyzes and responds to identified fraud risks so that they are effectively mitigated. SBA has stated that it takes a zero tolerance stance on fraud, waste, and abuse in all of its programs.[24] Until it collects reliable loan agent information and establishes regular performance monitoring, the Agency may not be able to detect potential fraud and specific loan agents that have a history of unacceptable or poor performance on SBA loans.

[22] For purposes of our analysis, we considered loan default rates greater than 15 percent to be concerning performance as this rate was more than 5 times the default rate for 7(a) loans between December 1, 2010 and September 30, 2014.
[23] See Table 1.
[24] SBA's *FY 2016 Congressional Budget Justification* and *FY 2014 Annual Performance Report*.

Recommendations

We recommend that the Office of Credit Risk Management:

1. Establish and implement procedures for the regular monitoring of SBA Form 159 data to identify concerning trends or risk patterns.

2. Develop performance metrics for loan agents that, if exceeded, would trigger closer SBA examination of a loan agent's activity and performance.

3. Establish and implement procedures for reporting any concerning trends or suspected fraudulent activity of loan agents to Agency management and OIG.

4. Determine whether it is feasible to establish a report to provide participating lenders with information on loan agents and their performance.

Finding 2: SBA Did Not Establish Adequate Controls Over Form 159 Data Collection and Reporting Processes

One of the reasons it has become difficult for SBA to track and monitor loan agent activity and performance is due to missing or erroneous loan agent data. Without complete, reliable data, SBA does not have enough information to identify loan agents, their compensation, or any concerning trends related to their activity or performance.

Since 2000, when OIG first identified tracking loan agent participation as a management challenge, SBA has implemented an electronic process to submit Form 159 data on 7(a) loans. When a loan agent enters into an agreement with an SBA participating lender or applicant, the lender is required to provide and disclose information—such as the SBA loan number, service provided, agent(s) compensated, and the amount(s) paid—in a compensation agreement. This form is submitted to SBA's fiscal transfer agent (FTA), who then inputs this data into a database and periodically submits the information to SBA.[25]

Despite establishing this process, we found that SBA did not have the internal controls in place to ensure that this data was reliable and accurate enough to monitor loan agent activity. According to OMB, agencies are responsible for establishing internal controls over information systems, like edit checks, that will ensure that data is accurate and complete, and that transactions are properly authorized and processed.[26] OMB also requires agencies to monitor whether these internal controls are effective, and to conduct periodic reviews including reconciling, comparing, and assessing data. SBA's own internal control procedures require that financial, statistical, and other reports—such as the periodic reports from the database—be accurate, timely, and reliable in order to maintain accountability and managerial control.[27]

During the course of our audit, we determined that SBA faced data challenges at two levels: (1) the accuracy of compensation agreement data recorded by the FTA; and (2) the completeness of information submitted by lenders on the compensation agreement forms.

Data Quality within the Compensation Agreement Database

SBA did not implement proper controls over data input and validation for the compensation agreement database. According to an estimate by SBA officials in 2014, information in the compensation agreement database may have only been 50 to 60 percent accurate. In 2013, OCRM requested one of its contractors analyze the database in order to determine the nature and extent of the data errors. The contractor identified serious deficiencies in data integrity and general data quality, rendering the data set nearly unusable for purposes of data manipulation and cross-referencing with other data sets.[28] Further, the contractor noted that the lender name field, which is key for SBA analysis, included 2,161 errors including extra spaces, misspellings, improper punctuation, and duplicates. This represented an error rate greater than 60 percent.

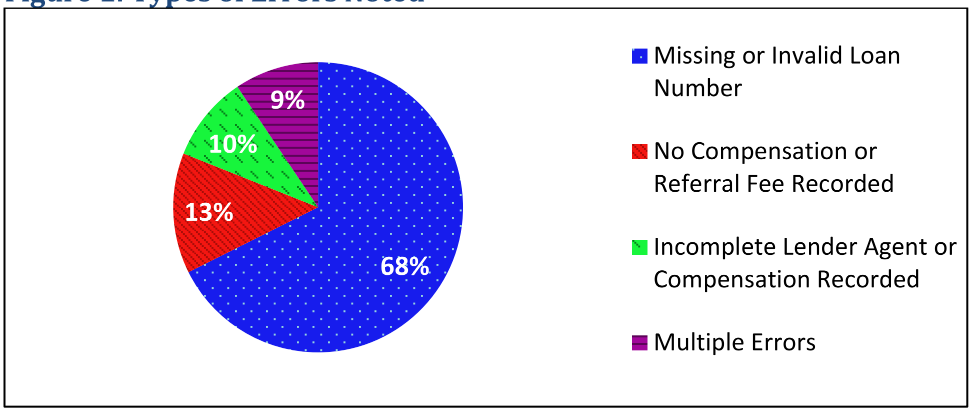
[25] SOP 50 10 5 (F), *Lender and Development Company Loan Programs* (January 1, 2014).
[26] OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).
[27] SOP 00 02 2, *Internal Control Systems* (January 1986).
[28] Fuentez-Fernandez & Associates, *Evaluation of Data Submitted by 7(a) Lenders Using Form 159 as Reported by Colson. Services Corporation for the Period December 2010 to December 2012*.

We conducted our own analysis of the data recorded between December 2010 and September 2014 and determined that of the 51,000 records during that period:

- 28 percent contained missing or inaccurate loan number information;
- 23 percent that indicated referral agent involvement had incomplete information related to the agent or their compensation; [29] and
- 7 percent did not disclose any compensation amounts.

In total, we found that approximately 19,000, or 37 percent, of the 51,000 Form 159 records contained critical errors that would limit SBA's ability to conduct effective oversight (See Figure 1 below for details on errors affecting the 19,000 records). As a result, we determined that the compensation disclosure database was materially inaccurate.

Figure 1: Types of Errors Noted



Source: OIG analysis of SBA Form 159 database maintained by the FTA

Further, we noted that the loan agent name field(s) contained as many as 19 different spellings of the same agent. Errors like incorrect loan agent names would hinder efforts to monitor comprehensive data for that loan agent. In addition to analyzing the data, we selected a small sample of Form 159 records to compare to source documentation. This comparison indicated that 35 percent of the records reviewed had critical recording errors by the FTA, which would further impact SBA's ability to perform appropriate monitoring. When considering even minor errors, 60 percent of the sampled items had at least one exception noted, where the data recorded and original Form 159 information did not agree.

Based on our interviews with Colson and SBA officials, we determined that poor data quality was due to the fact that SBA had not provided adequate requirements, instructions, or guidance to the FTA for ensuring and maintaining the data's integrity. As a result, the FTA's controls were extremely weak; for example, the FTA did not have a check to ensure that the loan number was a valid 10-digit number or a check that all fields were complete. SBA did not require the FTA to have a follow-up process or procedures that would require the FTA to identify and correct errors and omissions in form data submitted by lenders.

The quality of the data is further impacted because loan agents cannot be uniquely identified. In 2004, SBA determined that it faced restrictions on the type of information it could use to uniquely identify loan agents. At this time, SBA has not assigned unique identifiers to loan agents. For loan agents with complex names or operating under various names, it is more likely that different names or spellings may be put into the database, making oversight more difficult.

[29] A referral agent can act on behalf of an applicant or a lender, and is a type of loan agent.

Lender Noncompliance with SBA Form Requirements

SBA has also faced longstanding issues with receiving accurate and complete compensation agreement forms from participating lenders. Agency officials we interviewed estimated that only about 60 to 70 percent of the compensation agreement forms were being submitted by lenders. Since 2011, OCRM has issued lender risk-based review findings for 63 lenders, with the majority of the findings centering on whether the form was completed and/or submitted to the FTA. For lenders using loan agents, this in turn could mean that the lenders' forms—which were either incomplete or not submitted—did not provide important loan agent information.

We reviewed the 63 lenders that OCRM identified in its findings as noncompliant and found that 26 percent used loan agents within their SBA lending programs. Further, OIG interviews with 7 of the top 30 lenders in the 7(a) Program revealed that many were not submitting the compensation agreement form to the FTA. One of the top 30 lenders, who stated it used loan agents in approximately 85 percent of its transactions, disclosed that it had not submitted any of its Form 159s. We estimated that the lender did not submit over 500 compensation agreements to the FTA, or approximately 1 percent of the entire form database.[30] Similarly, another lender either did not report or did not properly disclose compensation paid to a specific loan agent on 9 of the 14 loans we reviewed—64 percent.

In other instances, lenders submitted the forms, but with incomplete data. Specifically, one top 30 SBA lender did not include loan numbers for approximately 800 of its form submissions—80 percent. While we found compliance issues were prevalent among 7 top lenders we interviewed, when speaking with other prominent SBA lenders, we noted similar Form 159 compliance issues.

While we were unable to determine a direct cause for why lender forms were incomplete or not submitted, representatives from a leading industry trade association focused on SBA lending programs stated that SBA's policy did not adequately or consistently define various types of loan agents based on their role in the transaction. Consequently, lenders may not have known whether an individual or business qualified as a loan agent, and therefore required a compensation agreement. Lenders we interviewed also acknowledged that due to gaps in their procedures, they did not include loan numbers on the form or submit them to the FTA.

As long as the information on loan agents is materially incomplete, SBA will be limited in its ability to perform oversight and cannot fully evaluate loan agent activities for risk of fraud and loss. Further, SBA may not be able to identify and detect problem loan agents and loan agent relationships that do not meet SBA requirements.

Recommendations

We recommend that the Office of Performance and Systems Management:

5. Issue a notice to SBA participating lenders clarifying the types of loan agent transactions and compensation requiring disclosure and SBA's requirements for lender submission of the information to SBA's FTA.
6. Develop benchmarks for contractor performance and require the FTA to implement appropriate application controls and follow-up procedures with lenders to ensure the integrity of the Form 159 database.

[30] Based on analysis of the lender's portfolio from December 1, 2010 to September 30, 2014,

7. Perform a review of the Form 159 database in coordination with the FTA to identify and correct existing Form 159 data errors.

8. Implement a process using permissible information to uniquely identify loan agents involved with SBA lending programs for tracking purposes.

Finding 3: Tracking Loan Agent Activity in the SBA 504 Loan Program

While Findings 1 and 2 have focused on the 7(a) Program, we also note SBA should improve its controls and oversight of loan agents within the 504 Program. As with the 7(a) Program, if an applicant or a certified development company (CDC) participating in the 504 Program wishes to use a loan agent, the CDC must complete a formalized compensation agreement. This agreement, which also uses Form 159, must show the compensation charged for services rendered or to be rendered to the applicant or CDC.[31] However, unlike the 7(a) Program, SBA has not established a method to collect and track these forms in an electronic format. Because SBA does not require CDCs to submit these forms to its fiscal transfer agent (FTA) for 504 loans, SBA does not receive this data and, consequently, does not have a way to track loan agent participation or performance in the 504 Program. Additionally, CDCs themselves might not be aware of all loan agent involvement. We found that loan agents in the 504 Program may be compensated by the first mortgage lenders, which may not be disclosed to the CDC.

Because SBA does not currently track loan agents that participate in the 504 Program, we could not readily determine the level of loan agent activity. However, our research indicated that 9 of the top 30 CDCs within the 504 Program advertised on websites that they use loan agents.[32] CDCs we interviewed also stated that they had compensated loan agents in the past or had a small number of loan agents they regularly worked with. While our interviews with various CDCs indicated that the 504 Program did not involve loan agents as significantly as the 7(a) Program, we noted that 504 loan agent involvement was more prevalent within certain geographic areas. As previously noted, our office also has investigated and confirmed fraudulent activity on behalf of loan agents within the 504 Program.

SBA does not prevent loan agents from engaging within its various loan programs unless they are currently suspended or debarred from engaging in Government programs. Further, there is nothing prohibiting a loan agent receiving compensation from 7(a) loan transactions from engaging in loan transactions within SBA's 504 loan program. Without collecting the full scope of loan agent activity within its programs, SBA's information will remain incomplete. Without complete data, SBA's ability to effectively monitor the activity and performance of loan agents, along with any risk mitigation efforts, will be further impacted.

Recommendation

We recommend that the Office of Performance and Systems Management:

9. Develop a method for CDCs to electronically report loan agent compensation via SBA's Form 159 to the SBA's Fiscal Transfer Agent.

Analysis of Agency Response

We provided a draft of this audit report to SBA management. SBA's response is included in Appendix III of this final report. The Agency agreed with our recommendations and the need to identify loan agent participation within SBA loan programs in order to better evaluate loan

[31] Code of Federal Regulations, Title 13. *Business Credit and Assistance*, Part 103 and SBA Form 159, *Fee Disclosure Form and Compensation Agreement* (SBA 504 Loan).
[32] Based on the number of approved loans from October 1, 2012 through June 30, 2014.

portfolio performance. The following provides a summary of management's comments and the actions necessary to close the report.

Recommendation:

1. **Establish and implement procedures for the regular monitoring of SBA Form 159 data to identify concerning trends or risk patterns.**

   OCRM stated that it will conduct analyses of the Form 159 database to identify trends and risk patterns in agent behavior and establish regular reports. Additionally, OCRM will include regular monitoring of Form 159 data as part of its planned Portfolio Management System. This recommendation can be closed upon OCA's implementation of procedures for the regular monitoring of the SBA Form 159 data.

2. **Develop performance metrics for loan agents that, if exceeded, would trigger closer SBA examination of a loan agent's activity and performance.**

   OCRM stated that it will evaluate loan performance on agent-supported loans to identify higher portfolio risk utilizing existing PARRiS metrics and benchmarks. Loans associated with agents that demonstrate performance metrics of higher risk will trigger an assessment of that lender and potential elevation of review activities. This recommendation can be closed upon SBA providing evidence that loan agent performance metrics have been established.

3. **Establish and implement procedures for reporting any concerning trends or suspected fraudulent activity of loan agents to Agency management and OIG.**

   OCRM stated that it will establish procedures for reporting concerning trends or suspected fraudulent activity of loan agents to Agency management and OIG. This recommendation can be closed upon OCRM's implementation of procedures for reporting concerning trends or suspected fraudulent activity of loan agents to Agency management and OIG.

4. **Determine whether it is feasible to establish a report to provide participating lenders with information on loan agents and their performance.**

   OCRM stated that it will initiate the evaluation of feasibility by contacting other agencies that have disseminated similar information related to loan agents/brokers to entities participating in its programs. This recommendation can be closed upon OCRM's completion of a thorough assessment of the feasibility of establishing a report on loan agent performance.

5. **Issue a notice to SBA participating lenders clarifying the types of loan agent transactions and compensation requiring disclosure and SBA's requirements for lender submission of the information to SBA's FTA.**

   OCA's Office of Performance and Systems Management (OPSM) stated that it will issue a notice clarifying the types of loan agent transactions and compensation requiring disclosure and SBA's requirements for lender submission of the information to SBA's FTA. This recommendation can be closed upon OPSM's issuance of the notice to SBA lenders.

6. **Develop benchmarks for contractor performance and require the FTA to implement appropriate application controls and follow-up procedures with lenders to ensure the integrity of the Form 159 database.**

   OPSM stated that it will establish benchmarks to measure the accuracy of the FTA's input of Form 159 data. Additionally, OPSM will instruct the FTA to conduct lender training on Form 159 completion, and require the FTA to implement controls to ensure that submitted forms are complete, including follow-up as needed. This recommendation can be closed upon OPSM's implementation of FTA performance benchmarks and appropriate application controls over Form 159 data.

7. **Perform a review of the Form 159 database in coordination with the FTA to identify and correct existing Form 159 data errors.**

   OPSM stated that it will perform a review of the Form 159 database with the FTA. Additionally, OPSM will work in coordination with the FTA to develop a strategy to decrease errors for future submissions. SBA will evaluate resources required and available to correct existing Form 159 data errors. This recommendation can be closed upon the completion of OPSM's review and correction of the errors in the database.

8. **Implement a process using permissible information to uniquely identify loan agents involved with SBA lending programs for tracking purposes.**

   OPSM stated that it will initiate an evaluation of feasibility by contacting other agencies that track agent activity to ascertain their process and authority for engaging in such activity. This recommendation can be closed upon OPSM's implementation of a process to uniquely identify loan agents.

9. **Develop a method for CDCs to electronically report loan agent compensation via SBA's Form 159 to the SBA's Fiscal Transfer Agent.**

   OPSM stated that it will work with key stakeholders to develop a method for CDCs to electronically report loan agent compensation via SBA's Form 159. This recommendation can be closed upon OPSM's implementation of a method for electronic reporting by CDCs of SBA Form 159s.

Appendix I: Scope and Methodology

Our objectives were to determine the extent to which SBA has (1) identified financial and other impacts resulting from the involvement of loan agents in SBA loan programs and (2) developed controls to effectively track, evaluate, and enforce loan agent participation and performance. This report is the second of two, and addresses both objectives as they relate to SBA's oversight of loan agents, not to include LSPs.

To answer our objectives, we reviewed Section 7(a) of the Small Business Act, and CFR Title 13. In addition, we reviewed various versions of SBA's Standard Operating Procedures (SOPs) including 50 10 5 and 50 53. We also reviewed Government Accountability Office standards and Office of Management and Budget guidance. Further, we selected and interviewed officials from other Federal agencies with similar Government-guaranteed lending programs to gain insight of loan agent participation and risks in their lending programs. We also interviewed SBA program officials responsible for program oversight. Additionally, we judgmentally selected and interviewed lenders involved in the SBA 7(a) Program and certified development companies (CDCs) to gain industry perspectives.

We received and analyzed data provided by SBA OIG's Investigations Division for the purposes of quantifying the impact of loan agents on SBA programs. We also analyzed SBA Form 159 data from the FTA to determine the integrity of the Agency's data. Further, we requested and received SBA Form 159 finding information from SBA which was then analyzed. Finally, we requested and received the contractor's review of the SBA Form159 information from OCRM. We analyzed this information and compared the results to our own data analyses of the SBA Form 159 data.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, 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 findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

We relied on information from SBA's Mainframe Loan Accounting System (LAS) and the FTA's Form 159 data provided by SBA. Previous OIG engagements have verified that the information maintained in LAS is reasonably reliable. In addition, we conducted reliability tests on the data contained in FTA's Form 159 data. For example, we verified that the data was within the scope of our requests and did not include critical data errors other than described in this report. As a result, we believe the information has limited reliability, as presented in this audit report.

Review of Internal Controls

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. To assess internal controls during the audit, we assessed the control environment in which SBA tracked, evaluated, and enforced loan agent participation and performance. We interviewed SBA officials with the responsibility for lender oversight and portfolio systems management. We found weaknesses in SBA's tracking of loan agent involvement in SBA loans. Additionally, we found that SBA had not established a process to evaluate loan agent performance against reasonable benchmarks. Cumulatively, the weaknesses we identified diminished SBA's ability to oversee loan agent involvement and identify risk in SBA lending programs.

Appendix II: Notable Loan Agent Fraud Schemes and Investigative Results

Multiple Legal Actions Result From $100 Million Scheme

Seven individuals and one company have been indicted or sentenced during the reporting period in connection with a scheme to fraudulently obtain SBA-guaranteed loans. Specifically, a multiple-count superseding indictment charged a loan brokerage company and four individuals—the two brothers who owned the company, a former owner of a Maryland title company, and an attorney who owns a Virginia title company—for their role in the scheme. The resulting losses totaled over $100 million.

The loan brokerage company and its two owners were each charged with bank fraud, conspiracy to commit bank fraud, money laundering, aiding and abetting, and criminal forfeiture, with one owner having pled guilty to conspiracy to commit bank fraud.

The former Maryland title company owner and the attorney were each charged with bank fraud, money laundering, aiding and abetting, and criminal forfeiture. The loan brokerage company—referred to above—had specialized in securing loans for individuals interested in purchasing or refinancing small businesses in the Mid-Atlantic area. One brother encouraged prospective borrowers to use the company's services to apply for SBA 7(a) business loans. He and others allegedly submitted SBA loan applications and supporting documentation containing fraudulent personal financial statements and monthly bank statements to loan originators and underwriters on behalf of the company's clients. The borrower's net worth and equity injection amounts were overstated on the documentation to falsely enhance their creditworthiness.

Three individuals in Maryland were each sentenced for conspiracy to commit bank fraud. The first person received 36 months in prison and 3 years supervised release, and agreed to $13,432,000 in criminal forfeiture. The second person was sentenced to one year and one month in prison, 5 years supervised release, and over $216,400 in restitution. She also agreed to $15,725,000 in criminal forfeiture. The third person was sentenced to 36 months in prison, 5 years supervised release, and over $1,888,200 in restitution. He agreed to a criminal forfeiture of $18,764,900. The three individuals had altered bank statements, cashiers' checks, and Internal Revenue Service documents to make it appear that the prospective borrowers had more money for their equity injections than they actually did. OIG is conducting this investigation jointly with the Federal Bureau of Investigation and the U.S. Postal Inspection Service.

Source: OIG Semiannual Report to Congress, Spring 2013

Joint Investigation Uncovers Massive Loan Fraud

In January 2007, agents from SBA OIG and the U.S. Secret Service arrested 18 individuals sought in connection with a scheme in which a non-bank lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The loans were primarily for the purchase of gas stations. The executive vice president was indicted for conspiracy, wire fraud, tampering with witnesses, and making false declarations to a grand jury and a bank. The indictment alleged that he fraudulently caused the lender to originate as many as 76 loans totaling almost $77 million, and that SBA had already paid claims totaling approximately $28.4 million on these loans.

Three other individuals were indicted for conspiracy and making false statements. The first two allegedly obtained a $944,000 SBA-guaranteed loan through fraud, and the third allegedly facilitated the fraud by providing phony bank documentation to verify the required equity injection. SBA paid over $709,000 on this defaulted loan. In addition, a former assistant vice president of another financial institution was indicted for conspiracy and misapplication of bank funds. She allegedly supplied false verifications of deposits for loan applicants and gave a loan broker unfunded cashier's checks to be used in the loan closings.

As a result of this investigation, the non-bank lender repurchased guaranties from SBA on three fraudulent loans, resulting in administrative recoveries of over $1.8 million, and terminated its guaranties on two other fraudulent loans that SBA had not yet purchased, resulting in cost savings of over $1.4 million. In addition, the lender repaid SBA over $9.6 million for 19 fraudulent loans identified in the investigation.

Consequently, as of March 31, 2007, SBA recoveries and cost savings totaled over $12.9 million. This investigation was based on information from the U.S. Attorney's Office in Detroit, Michigan, and was conducted jointly with the U.S. Secret Service.

Source: OIG Semiannual Report to Congress, Spring 2007

New Jersey Men Sentenced for Bank Fraud Scheme

An investigation found that an organized group of foreign nationals obtained credit cards and loans from various lending institutions using false identities, documents, and business names. Loan officers at various banks were also involved in the scheme, with many of the loans being SBA Express loans. OIG is conducting the investigation jointly with the Internal Revenue Service (IRS) Criminal Investigation (CI), the Englewood (New Jersey) Police Department, and the Bergen County Prosecutors' Office. During the reporting period, two men were sentenced as follows.

A former New Jersey loan officer was sentenced to 36 months of probation and was ordered to pay $127,822 in restitution after pleading guilty to making false statements and concealing material facts. He had helped secure loans for the above group by falsifying site visit forms for their businesses. He originated sixteen loans totaling over $1.1 million.

A New Jersey man was sentenced to 24 months in prison and 36 months of probation, and was ordered to pay joint restitution of $154,623. He had previously pled guilty to conspiracy to commit bank fraud. The man, as a member of the group mentioned above, obtained three SBA guaranteed Express loans totaling $130,000, as well as a $25,000 non-SBA loan, in the names of two fictitious companies.

Source: OIG Semiannual Report to Congress, Fall 2013

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

DATE: September 22, 2015

TO: Troy M. Meyer
Assistant Inspector General for Auditing
Office of Inspector General

FROM: Ann Marie Mehlum
Associate Administrator
Office of Capital Access

SUBJECT: Response to OIG Draft Audit Report
"SBA Needs to Improve Its Oversight of Loan Agents"

The Office of Capital Access (OCA) appreciates the opportunity to respond to the OIG recent draft Audit Report, "SBA Needs to Improve Its Oversight of Loan Agents." The draft Audit Report highlights the impact of loan agent activity on the 7(a) program, and discusses the need to establish more effective monitoring and controls.

We are committed to identifying risks associated with loan agents at the portfolio level, at the individual lender level, and at the loan level. We collect loan agent data on every loan involving a loan agent transaction by requiring the lending partner to disclose the name of the agent and the fee charged by the agent to the borrower, amount of fee charged, and type of services. Our primary focus is regulating and monitoring the performance of our lending partners, and allowing the lending partners to make decisions regarding the loan agents and other vendors they utilize. We hold our lending partners accountable for the actions of their agents and vendors and suspend or debar those agents whose actions are so serious and compelling as to satisfy the criteria in 2 CFR Parts 180 and 2700, et. seq.

Based on its analysis, the OIG determined that loan agents were involved in approximately 15 percent of all 7(a) loans. The OIG also determined that 7(a) loans made during 2011, which resulted in the lender paying a referral fee to a loan agent, defaulted at a rate 28 percent higher than those loans where no referral fee was reported. However, the OIG also acknowledges that they could not adequately assess potential risks or identify problem agents due to data limitations attributable to the lack of a unique identifier and other controls.. While the OIG suggested that the level of fraud may be underestimated, it also acknowledged that the amount of confirmed fraud related to loan agents is small when compared to the billions in overall SBA lending volume since 2005.

The draft Audit Report recognized that SBA has strengthened controls over loan agent participation within its loan programs. Additionally, SBA intends to do more with its data to identify waste, fraud, and abuse of its programs by loan agents. As indicated below, OCA's Office of Credit Risk Management (OCRM) has enhanced its review of loan agents through proactive analysis of available loan agent data and review of loan agent activity in loan files. OCRM's Lender Profile Assessment (LPA) provides the starting point. Currently, the LPA identifies whether a lender uses the services of a loan agent/broker as a risk flag. For analytical and full reviews, OCRM requests loan agent information. When OCRM's analysis indicates higher risk in agent-supported loans, OCRM conducts an in-depth file review of a sample of those loans. OCRM will continue to use loan agent data to inform its risk-based reviews of lenders.

OIG has also identified that the quality of SBA's loan agent data needs improvement. OCRM has completed an initial exploratory data analysis of the loan agent data compiled by Colson Services Corporation in the Form 159 database. OCRM determined that SBA needed to better standardize the identification of loan agents, the classification of loan agent types, and the services performed, within our database. OCA's Office of Performance and Systems Management (OPSM) is committed to work to improve data quality.

RECOMMENDATIONS

1. **Establish and implement procedures for the regular monitoring of SBA Form 159 data to identify concerning trends or risk patterns.**

   OCRM agrees with OIG regarding the need to establish and implement procedures for the regular monitoring of SBA Form 159 data to identify concerning trends or risk patterns. OCRM will conduct analyses of the Form 159 database to identify trends and risk patterns in agent behavior and establish regular reports of these trends and risk patterns. OCRM will include regular monitoring of Form 159 data as part of its planned Portfolio Management System.

2. **Develop performance metrics for loan agents that, if exceeded, would trigger closer SBA examination of a loan agent's activity and performance.**

   OCRM agrees with OIG regarding the development of performance metrics for lenders with loan agent activity to trigger closer SBA examination. OCRM will evaluate loan performance on agent-supported loans to identify higher portfolio risk utilizing existing PARRiS metrics and benchmarks. Loans associated with agents that demonstrate performance metrics of higher risk will trigger an assessment of that lender and potential elevation of review activities.

3. **Establish and implement procedures for reporting any concerning trends or suspected fraudulent activity of loan agents to Agency management and OIG.**

OCRM agrees with the OIG regarding establishing and implementing procedures for reporting concerning trends or suspected fraudulent activity of loan agents to Agency Management and OIG. OCRM currently informs Agency Management in the Lender Oversight Committee (LOC) of lender oversight activities at its meetings. OCRM will include loan agent trends and activity, as appropriate. OCRM already has procedures for reporting any suspected fraudulent activity to the OIG in SOP 50 53 (A), Chapter 4, Para. 5h. Accordingly, OCRM already reports suspected fraudulent activity to the OIG. However, OCRM will remind all OCRM staff of this important provision and its application to loan agent activity as part of its regular training. Finally, OCRM can notify the OIG of agent trends and risk patterns related to loan agent activity.

4. **Determine whether it is feasible to establish a report to provide participating lenders with information on loan agents and their performance.**

   OCRM agrees that it will evaluate the feasibility of establishing a report to provide participating lenders with information on loan agents and their performance. OCRM will initiate the evaluation of feasibility by contacting other agencies that have disseminated similar information related to loan agents/brokers to entities participating in their programs.

5. **Issue a notice to SBA participating lenders clarifying the types of loan agent transactions and compensation requiring disclosure and SBA's requirements for lender submission of the information to SBA's FTA.**

   OPSM agrees to issue a notice clarifying the types of loan agent transactions and compensation requiring disclosure and SBA's requirements for lender submission of the information to SBA's FTA.

6. **Develop benchmarks for contractor performance and require the FTA to implement appropriate application controls and follow-up procedures with lenders to ensure the integrity of the Form 159 database.**

   OPSM agrees to establish benchmarks to measure the accuracy of the FTA's input of Form 159 data. OPSM will then instruct the FTA to conduct lender training on accurately completing the Form 159, and require the FTA to implement controls to ensure that submitted forms are complete, including following-up with the lender as needed. SBA would have to modify the FTA contract to incorporate the Form 159 benchmarks and the FTA required actions, or identify an alternate solution.

7. **Perform a review of the Form 159 database in coordination with the FTA to identify and correct existing Form 159 data errors.**

   OPSM agrees to perform a review of the Form 159 database with the FTA. OPSM will work in coordination with the FTA to develop a strategy to decrease errors for future submissions. SBA will evaluate resources required and available to correct existing Form 159 data errors.

8. **Implement a process using permissible information to uniquely identify loan agents involved with SBA lending programs for tracking purposes.**

   The Office of Performance and Systems Management agrees that a process using permissible information to uniquely identify loan agents involved with SBA lending programs for tracking purpose would improve overall data quality. The Office of Performance and Systems Management will initiate an evaluation of feasibility by contacting other agencies which track agent activity to ascertain their process and authority for engaging in such activity.

9. **Develop a method for CDCs to electronically report loan agent compensation via SBA's Form 159 to the SBA's Fiscal Transfer Agent.**

   The Office of Performance and Systems Management agrees to work with key stakeholders to develop a method for CDCs to electronically report loan agent compensation via SBA's Form 159.