U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

ADVISORY MEMORANDUM REPORT
NUMBER A1-02
January 11, 2001

To: Charles D. Tansey, Associate Deputy Administrator for Capital Access

Robert G Seabrooks

From: Robert G. Seabrooks, Assistant Inspector General
For Auditing

Subject: Identification of Possible Ineligible Borrowers

The purpose of this memorandum is to alert you to an issue that we identified during our current audit of PLP Oversight.

Finding

SBA is providing loans to borrowers who defaulted on prior SBA guaranteed loans and caused SBA to suffer losses. During the audit, we identified a principal who obtained three SBA guaranteed loans between FY1996 to FY1999 after defaulting on an SBA guaranteed loan in 1993. To determine the extent of this problem, we queried SBA's loan accounting system to identify the social security numbers (SSN's) applicable to all purchased loans. We then compared the numbers to the SSN's for loans committed and disbursed during fiscal years 1998, 1999, and 2000.

We identified 180 loans where the borrower had previously defaulted on an SBA loan. Of the 180 loans, 31 were loan commitments valued at about $12.5 million that have not been disbursed. These commitments involved the Fastrack, 504, International Trade, and general business loan programs and included the preferred, express, and regular loan processing procedures. A list of the 31 commitments and their prior defaulted loans is attached.

Since the SSN's for the principals of the committed and defaulted loans were the same, it appears that the loans may have been inappropriately approved. We did not, however, review the loan files to determine if the prior defaults were disclosed or if a waiver was provided. Later

this fiscal year an audit will be performed to determine if a problem exists with the remaining loans to include cause(s) and possible corrective action.

Relevant Criteria

The Code of Federal Regulations, Part 13, Section 120.110(q), states that "Unless waived by SBA for good cause, businesses that have previously defaulted on a Federal loan or Federally assisted financing, resulting in the Federal government or any of its agencies or Departments sustaining a loss in any of its programs" is ineligible for SBA loans. The ineligibility also applies to…"businesses controlled by an applicant or any of its Associates which previously owned, operated, or controlled a business and caused the Federal government…to sustain a loss in any of its programs. For purposes of this section, a compromise agreement shall also be considered a loss."

Recommendations

We recommend that the Associate Deputy Administrator for Capital Access take the following actions:

A-1. Notify lenders identified on the attachment to suspend loan closing and disbursement until a determination is made as to whether the principals for both the committed and defaulted loans are the same.

A-2. Determine whether the defaulted SBA loans were disclosed on the loan application where the principals were the same and if a waiver was appropriately provided.

A-3. Cancel loan guarantees for those applicants with prior loan defaults where a waiver for good cause is not warranted.

Please respond on the attached Forms 1824 within 10 days from the date of this memorandum on what actions are planned. If you or your staff have any questions, please contact Garry Duncan at (202) 205-7732.

Attachment

cc: Associate Administrator for Field Operations

The finding in this report is the conclusion of the OIG's Auditing Division based on testing of the auditee's operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.