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MEMORANDUM TRANSMITTAL

DATE: June 30, 2014

To: The Honorable Maria Cantwell  
Chairman, Committee on Small Business and Entrepreneurship  
United States Senate

The Honorable James E. Risch  
Ranking Member, Committee on Small Business and Entrepreneurship  
United States Senate

Subject: Office of Inspector General memorandum

In response to a request for information by the U.S. Senate Committee on Small Business and Entrepreneurship, the SBA Office of Inspector General prepared the following memorandum. This memorandum presents further analysis of the data presented in OIG Audit Report 14-14, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations*. Specifically, this additional analysis is of Hurricane Sandy disaster loan applications submitted to the Small Business Administration (SBA). We have also included a brief summary of the agency comments and OIG analysis below. We conducted the above-referenced audit in accordance with generally accepted government auditing standards. This memorandum will be attached to Audit Report 14-14.

Please direct any questions to me at (202) 205-7100 or Andrea Rambow, Acting Director, Credit Programs Group at (202) 205-4428.

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/s/  
Robert A. Westbrook  
Deputy Inspector General

## Introduction

This memorandum presents the results of analysis that was performed in June 2014, upon the request of the U.S. Senate Committee on Small Business and Entrepreneurship. The analysis was performed specifically to provide the following requested information:

- (1) Once a prospective borrower was determined by the SBA to be a qualified borrower, how many days on average did it take the SBA to process Hurricane Sandy home, business and economic injury disaster loans? and,
- (2) By how many days, on average, did the agency exceed its processing standards for all types of Hurricane Sandy disaster loans?

The Committee also requested Hurricane Sandy loan application and volume information, which we also provided in this memorandum. Our scope and methodology for this analysis is presented in Appendix I to this memorandum.

## Background

In May 2014, our office issued a draft report titled, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations* to the Small Business Administration (SBA). Our objective was to determine whether the SBA met its processing time goals for disaster loans and whether its published goals were attainable. The scope focused on the accuracy and attainability of disaster loan processing time goals from FY 2008 to FY 2013, as published in the Agency's annual Congressional Budget Justification and Annual Report.

## Results

In order to address the specific items, we performed an additional analysis of data in the SBA's Disaster Credit Management System as it related to only Hurricane Sandy (See Appendix I for the Scope and Methodology). Our results are as follows:

**Question 1:** *Once a prospective borrower was determined by the SBA to be a qualified borrower, how many days on average did it take the SBA to process Hurricane Sandy home, business and economic injury disaster loans?*

Table 1, below, includes the total average number of days needed to process all Hurricane Sandy disaster loan applications that were processed to a final decision (Column D).

**Table 1 Average Number of Days to Process Hurricane Sandy Applications**

A	B	C*	D
Loan Types	Average Number of Days to Decline via Auto-decline or Pre-loss Verification	Average Number of Days to Process a Qualified Borrower's Application to a Decision	Total Average Number of Days to Process Hurricane Sandy Disaster Loans
Home	4 days	33 days	37 days
Business	3 days	57 days	60 days
EIDL	3 days	48 days	51 days

\*Column C includes time spent on reacceptances and withdrawals, i.e., all actual time spent on processing loans after the Auto-decline or pre-Loss Verification stage.

### Agency Comments and OIG Analysis

In its response, the SBA stated that it took on average 28.72 days to process disaster home loan applications, 45.6 days to process business applications and 37.68 days to process economic injury disaster loan applications. The difference between the OIG's and SBA's average number of days to process each type of loan is based on the different methodologies used by the agency and the OIG to calculate application processing times. As presented in SBA OIG report 14-14, the OIG does not include applications that were automatically declined or declined at the pre-loss verification stage so as not to distort the overall average amount of time needed to process disaster loan applications to a decision. The OIG does include the time spent on applications that had been previously submitted and withdrawn, but later reaccepted, which better reflects the amount of time needed to process each type of loan to a decision.

**Question 2:** *By how many days on average did the agency exceed its processing standards for all types of Hurricane Sandy disaster loans?*

Table 2 below presents the average number of days to process Hurricane Sandy disaster loans as compared to the agency's standard (14 and 18 days), as well as the number of days the agency exceeded its standard (Column D). Calculations exclude automatically-declined and pre-loss verification applications, and includes all time spent on withdrawn and reaccepted applications.

**Table 2 SBA's Standards vs. Hurricane Sandy Application Processing Time vs.**

A	B*	C	D
Loan Types	Standard Used by the SBA for Disaster Loans including Hurricane Sandy	Average Number of Days to Process Disaster Loans	Average Number of Days Exceeding Agency Standard (in column B)
Home	14 days	37 days	23 days
Business	18 days	60 days	42 days
EIDL	18 days	51 days	33 days

\*The agency reported in its CBJ, standards for home and business/EIDLs of 27 and 30 days, respectively. But during the audit, Agency officials stated that the standards applied were 14 and 18 days.

### Agency Comments and OIG Analysis

The SBA reported in its CBJ, a 27-day standard to process a disaster home loan and a 30-day standard to process a disaster business loan. But during the audit, in an email to the OIG dated May 1, 2014, the agency stated that it actually used a 14-day standard for home loans and an 18-day standard for business loans, despite what it reported in its CBJ. The OIG used the standards from the May 2014 email for its calculations. The difference between the OIG's and the SBA's calculation of average number of days exceeding the agency standard is, in part, based on a different methodology (as explained above), and the different standards used as the basis for the calculation.

## **Additional Information**

We were also requested to provide Hurricane Sandy application and volume information. According to our analysis of Hurricane Sandy disaster loan applications that were processed to a final decision:

- First Application Date – October 31, 2012
- Last Application Date – December 30, 2013
- Number of applications – 69,639
- Number of approved applications - 35,555
- Total Dollar Amount of Approved Loans - \$2,378,359,800
- Total Number of Applications denied – 34,084
  - Auto declines - 4,393
  - Pre-Loss Verification declines – 9,895
  - Auto-declines and Pre-LV Rate =21 percent

## **Agency Comments and OIG Analysis**

The agency states that the number of Hurricane Sandy disaster loan applications submitted was 85,446. The agency stated that the OIG figures above do not include withdrawn files. According to the agency these additional applications result in a lower auto-decline and pre-loss verification rate which the agency reports as 17 percent.

## **Appendix I: Scope and Methodology**

The scope of the analysis was limited to Hurricane Sandy disaster loan applications submitted to the SBA from October 31, 2012, to December 30, 2013. We reviewed the attainability of disaster loan processing-time standards. We obtained raw data from the Disaster Credit Management System (DCMS) Operations Office. The data contained a comprehensive list of all disaster loan applications with a loan approval or denial decision between January 1, 2007, and December 31, 2013. We then computed the average processing times for each of the three primary types of Hurricane Sandy disaster loans: home, business, and EIDL, based upon the date each application was received and the decision date.

We computed the processing time for each of the three loan types, excluding the processing time for applications automatically declined by DCMS, and for applications quickly rejected prior to loss verification. In addition, for applications previously withdrawn and reaccepted, we added all of the time the SBA had the loan available for processing each time the loan was reaccepted. We determined the average processing time for the loans based upon the date the application was originally accepted by the SBA, including the additional processing time after reacceptances. We compared the SBA's actual performance related to achieving processing-time standards to its performance as we calculated it based upon our revised methodology.

### **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 applications received between January 1, 2007, and December 31, 2013, which were processed to a final loan decision. We believe the information is reliable for the purposes of this analysis.