

# SBA'S ACTIONS TO IMPROVE THE MANAGEMENT OF THE 7(A) LOAN GUARANTY APPROVAL PROCESS


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# Office of Inspector General

U.S. Small Business Administration

**DATE:** September 20, 2022  
**TO:** Isabella Casillas Guzman  
Administrator  
**FROM:** Hannibal "Mike" Ware   
Inspector General  
**SUBJECT:** Verification Inspection of SBA's Actions to Improve the Management of the  
7(a) Loan Guaranty Approval Process

This report represents the results of our verification inspection *SBA's Actions to Improve the Management of the 7(a) Loan Guaranty Approval Process*. A verification inspection is a short review that focuses on closed recommendations from prior OIG reports.

We appreciate the courtesies and cooperation extended to us during this verification inspection. If you have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

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## Background

The U.S. Small Business Administration (SBA) is authorized under Section 7(a) of the Small Business Act to provide financial assistance to small businesses in the form of government-guaranteed loans. These loans are made by participating lenders under an agreement with SBA to originate, service, and liquidate loans in accordance with SBA's rules, regulations, policies, and procedures. Some 7(a) loans are made by lenders using delegated authority, which undergo very limited review by SBA prior to loan disbursement. Others are subject to more extensive underwriting and eligibility review and approval by SBA before the loan is disbursed.

In December 2006, SBA established the Loan Guaranty Processing Center to centralize and promote consistency in SBA loan program operations. The processing center is responsible for approving or declining 7(a) loan guaranty applications submitted to SBA for review. The processing center loan specialists determine borrower eligibility and credit risk, in accordance with SBA's requirements, based on information submitted by the lenders. If an SBA-approved loan is ineligible or defaults because of poor underwriting decisions, SBA may not have recourse against the lender to deny its guaranty as it does for loans approved by lenders using delegated authority. In FY 2021, the processing center loan specialists approved approximately 4,100 7(a) loans exceeding \$4 billion.

In June 2014, the Office of Inspector General (OIG) conducted an audit of SBA's 7(a) loan guaranty approval process, [performance audit report 14-13](#). The review determined significant opportunities existed to improve the management of the 7(a) loan guaranty approval process to mitigate its risk of loss and protect the integrity of the program. Specifically, the audit found that processing center management emphasized quantity over quality for 7(a) loan reviews, and processing center loan specialists were not provided adequate guidance and training to conduct their 7(a) loan review activities.

OIG further identified that a decrease in the number of staff assigned to loan reviews, increase in loan size and complexity, additional processing center responsibilities, and inadequate supervision contributed to inappropriate loan decisions. OIG made and SBA management agreed to five recommendations to ensure program compliance and reduce the risk of loss.

This inspection focuses on recommendation 1, which recommended that SBA revise management reports to measure quality against established targets, ensure production credit is given for all loan review actions, and promote compliance with SBA requirements.

Our objective was to determine the effectiveness of corrective actions SBA implemented to improve the 7(a) loan guaranty approval process.

## Summary of Results

SBA effectively implemented recommendation 1 by revising its management reports to include key factors for measuring the quality and complexity of loan reviews to promote compliance with SBA requirements.

## Report 14-13: Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process

The following table details the original finding, recommendation, and SBA’s corrective action for recommendation 1.

OIG Finding	OIG Recommendation	SBA Corrective Action(s)
Processing center management emphasized quantity over quality for 7(a) loan reviews. Management production reports provided a reasonable assessment of the productivity and timeliness of the processing center but did not measure or communicate the quality of loan reviews conducted by loan specialists. Additionally, the reports did not consider the complexity of loan reviews or provide credit for all loan review actions.	We recommended the Director of the Office of Financial Program Operations revise management reports to measure quality against established targets, ensure production credit is given for all loan review actions, and promote compliance with SBA requirements.	We closed this recommendation on February 2, 2015 because the processing center implemented enhanced production reports which included the establishment of quality and complexity measures to ensure loan review actions promote compliance with SBA requirements.

### Inspection Result

We determined that the enhanced production reports used by the processing center management to track loan approval actions effectively met the intent of recommendation 1. The reports include factors to measure the quality and complexity of loan reviews. The reports also provide staff a balanced rating system that focuses on both the quality and quantity of actions completed. Specifically, the reports measure the quality of loan reviews by factoring whether supervisory review of a loan found any deficiencies requiring correction. The reports also include elements to measure the complexity of loan reviews, such as the loan dollar amount and number of principals and affiliates.

The reports last updated in 2018 appear to provide management with an effective oversight tool to improve the 7(a) loan guaranty approval process. Specifically, the updated quality and complexity factors in reports mean results are not as production driven. Staff are credited for the quality of reviews performed and the extra review time complex loans can require. Processing center management believes this has resulted in a better loan portfolio for SBA and a fairer system for management to evaluate the performance of staff. The process for revising quality and complexity measures was thorough and included input from staff. We consider this corrective action implemented.

## **Scope and Methodology**

To answer our objective, we selected recommendation 1 because it is the primary recommendation related to the key finding of audit report 14-13. SBA's corrective actions provided auditors with evidence to verify implementation for the entire scope period. Our inspection scope covered the period from the issuance of report 14-13 (June 2014) to March 31, 2022. Our work included reviewing management reports used to track loan approval actions, reviewing how reports are generated in SBA's web-based 7(a) Loan Guaranty Processing System, and interviewing processing center management.

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform the inspection to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our inspection objective.

## **Use of Computer-Processed Data**

We relied on information from processing center activity reports generated by SBA's web-based 7(a) Loan Guaranty Processing System to verify quality and complexity measures were included in management reports and considered key factors. The web-based processing system was determined to be reliable during the prior OIG audit. To assess the reliability of the activity reports, we observed the creation and functionality of the generated reports and analyzed the underlying formulas used in the reports. As a result, we believe the information is reliable for purposes of this inspection.