

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

# **SBA's Handling of Disaster Assistance Loan Real Estate Foreclosures**



**Audit Report**

**Report 26-11**

**June 23, 2026**



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# U.S. Small Business Administration Office of Inspector General

## EXECUTIVE SUMMARY

### SBA's Handling of Disaster Assistance Loan Real Estate Foreclosures (Report 26-11)

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#### What OIG Reviewed

This report presents the results of our audit of the U.S. Small Business Administration's (SBA) handling of disaster assistance loan real estate foreclosures.

When a disaster is declared, SBA responds by offering low-interest, fixed-rate disaster assistance loans. If a borrower defaults, the loan is transferred to the agency's National Disaster Loan Resolution Center to initiate collection actions.

For loans with real estate collateral, SBA assesses the recoverable value and determines if it is sufficient to meet the agency's threshold for foreclosure. If the recoverable value is insufficient, SBA abandons the pursuit of foreclosure.

As part of the foreclosure process, SBA provides the borrower an opportunity for loss mitigation, which the agency calls a workout. If the borrower requests a workout and makes a good faith payment, all foreclosure activity is to be put on hold.

Our objective was to evaluate SBA's foreclosure process from when a loan is placed in liquidation. To achieve our objective, we statistically sampled 354 out of 4,148 properties of which SBA chose not to pursue foreclosure and judgmentally sampled 251 active workouts to determine if foreclosure activity was put on hold.

#### What OIG Found

Opportunities exist for SBA to maximize recovery on real estate foreclosures. We found the agency abandoned the pursuit of

foreclosure on real estate collateral for 72 properties in which the recoverable value exceeded the foreclosure threshold.

We also found SBA unnecessarily increased some borrowers' principal loan balances by an average of \$525 because outstanding requests for property reports and appraisals were not canceled even though a borrower had requested a workout and made a good faith payment.

Lastly, we found SBA did not have controls in place to prevent the sale of real estate collateral to SBA employees, vendors, or their close relatives and associates.

By not pursuing foreclosure on the 72 identified properties, SBA missed an opportunity to potentially recover \$3.7 million. Clear guidelines and controls will enhance SBA's ability to maximize recovery of real estate collateral and strengthen its foreclosure process.

#### What OIG Recommended

We made five recommendations for SBA to maximize recovery of real estate collateral and strengthen internal controls in its real estate foreclosure process.

#### Agency Response

SBA management agreed with Recommendation 4, partially agreed with Recommendation 3, and disagreed with Recommendations 1, 2, and 5. Management's implemented and planned corrective actions resolve Recommendations 3 and 4. We will seek resolution in accordance with our audit follow-up policy for the remaining recommendations.

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# Introduction

This report presents the results of our audit of the U.S. Small Business Administration’s (SBA) foreclosure<sup>1</sup> process from when a loan is placed in liquidation.<sup>2</sup>

## Background

Under section 7(b) of the Small Business Act, SBA is authorized to provide four kinds of low-interest, fixed-rate disaster assistance loans when a disaster is declared: 1) physical disaster loans for homes, 2) physical disaster loans for businesses, 3) Economic Injury Disaster Loans (EIDL) for businesses, and 4) Military Reservist EIDLs. Physical disaster loans cover repairs and replacement of physical assets damaged in a declared disaster, EIDLs cover the costs and expenses for small businesses that incurred substantial economic injury from a declared natural disaster, and Military Reservist EIDLs provide operating capital to small businesses that suffer substantial economic injury due to the absence of an essential owner or employee who is called to active duty for more than 30 days.

SBA requires available collateral to secure disaster assistance loans exceeding the unsecured loan limit (see Table 1). The agency determines what collateral is available to best secure each loan, including but not limited to, real estate, fixed assets, inventory, and accounts receivable. If possible, the agency prefers to take real estate as collateral over other options even when the real estate’s valuation is insufficient to cover the full loan amount. Effective September 9, 2024, SBA changed the collateral threshold<sup>3</sup> at which loans must be secured.

**Table 1: Disaster Loan Collateral Requirements**

Loan Type	Collateral Threshold		
	Prior to September 9, 2024	Current	
		SBA Declarations	All Other Declaration Categories
Physical disaster loans (home and business)	\$25,000	\$14,000	\$50,000
EIDLs	\$25,000	\$50,000	\$50,000
Military Reservist EIDLs	\$50,000	\$50,000	\$50,000

Source: Standard Operating Procedure (SOP) 50 30 9 and Office of Capital Access SOP memorandum No. 24-34

<sup>1</sup> Foreclosure is a legal action taken to sell property that was pledged as security for a loan.

<sup>2</sup> Liquidation is the process of converting property into cash.

<sup>3</sup> 13 Code of Federal Regulations Part 123.11.

If a borrower misses two payments for a disaster loan, SBA sends a Notice of Default, informing the borrower of the missed payments and the potential for foreclosure. If a borrower misses three payments, the loan is transferred to the agency’s National Disaster Loan Resolution Center. After the fourth missing payment, if SBA determines that foreclosure is prudent, the agency will initiate the foreclosure process by sending a Notice of Intent to Foreclose to the borrower.

The foreclosure process for real estate collateral is conducted in accordance with the Real Estate Settlement Procedures Act (RESPA). For residential real property, RESPA Regulation X requires that lenders provide a borrower with an opportunity for loss mitigation,<sup>4</sup> which SBA calls a workout.<sup>5</sup> If an acceptable workout agreement is not reached, SBA moves forward with liquidation of all collateral that has recoverable value<sup>6</sup> through one of two primary means:

- Judicial Foreclosure: Requires filing a lawsuit through consultation with SBA legal counsel and the U.S. Department of Justice (DOJ), or
- Non-judicial Foreclosure: Requires private sale of property by a trustee for which SBA uses a third-party vendor.<sup>7</sup>

Each state determines whether foreclosures must be conducted through a judicial or non-judicial action. Some states allow for both methods, but SBA prefers non-judicial actions for the reasons stated in Table 2:

**Table 2: Judicial and Non-Judicial Foreclosure Methods**

Judicial Foreclosures	Non-Judicial Foreclosures
<p>Involves filing a lawsuit to obtain a court order to foreclose, which allows SBA to seek a loan deficiency judgment against the borrower. However, a disadvantage is that the borrower has state-specific redemption rights.<sup>a</sup></p>	<p>Preferred by SBA because there are no redemption rights, meaning the agency can avoid the court process. The agency also prefers this method because it is less costly and faster than judicial foreclosures. However, a disadvantage is that most states disallow pursuing a borrower for loan deficiency.<sup>b</sup></p>

<sup>a</sup> Redemption rights allow a borrower to take back a property after foreclosure by repaying the debt as designated by state law. The ability of the borrower to redeem the property expires after an amount of time specific to each state, ranging from 10 days to 1 year.

<sup>b</sup> Deficiency is the amount still owed after the net proceeds from the foreclosure sale have been applied to the loan.

<sup>4</sup> Loss mitigation is the process through which a borrower and their loan servicer collaborate to avoid foreclosure.  
<sup>5</sup> Workout is a renegotiation of loan terms between a lender and borrower to resolve a debt and avoid foreclosure.  
<sup>6</sup> Recoverable value is the amount expected to be recovered during liquidation of collateral.  
<sup>7</sup> The SBA Office of Inspector General (OIG) reported in Report 21-08, *SBA’s Use of Vendors Without a Contract*, February 3, 2021, that SBA does not have a contract with these vendors. On August 4, 2025, SBA OIG escalated the resolution of two of the report’s recommendations to the Audit Resolution Official, which is the SBA Deputy Administrator.

A loan specialist will use internet sites to determine the preliminary valuation of the property and ensure the recoverable value is sufficient to meet agency recoverable threshold requirements. If the loan specialist determines there is insufficient recoverable value, the loan is recommended to be charged off rather than pursuing foreclosure.

If there is sufficient recoverable value, an appraisal is obtained to ensure accuracy of the valuation before the loan specialist submits a request for foreclosure, also known as a 327 action.<sup>8</sup> For judicial foreclosures, a 327 action is first submitted to SBA legal counsel for approval before going to the supervisory loan specialist. For non-judicial foreclosures, a 327 action goes directly to the supervisory loan specialist. Once approved for foreclosure by the supervisory loan specialist, the district counsel contacts the DOJ for a court filing<sup>9</sup> in a judicial foreclosure state. In a non-judicial foreclosure state, SBA's third-party vendor initiates foreclosure by contacting the local sheriff, which might involve the vendor also obtaining local counsel.

Prior to the foreclosure sale date, either the district counsel or SBA vendor shall notify the assigned loan specialist of the scheduled sale date and request input on the maximum bid amount. The maximum bid amount is the highest price the agency is willing to bid at auction. Determining this amount in advance will help ensure SBA does not pay more than the property is worth or the amount outstanding on the loan. The maximum bid is set at the recoverable value if the amount is lower than the payoff balance.<sup>10</sup> The agency will only bid the outstanding loan amount, including all foreclosure fees, when the recoverable value exceeds the loan payoff amount.

If no one outbids SBA's maximum bid at the foreclosure auction, the agency acquires the real property collateral as real estate owned.<sup>11</sup> Agency policy dictates that the title to collateral should not be acquired unless it is necessary to maximize recovery on a loan, and if acquired, the property should be sold in the shortest amount of time possible. A broker price opinion,<sup>12</sup>

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<sup>8</sup> A 327 action is an electronic document that serves as a record of the decision and justification for a specific loan action.

<sup>9</sup> North Carolina, South Carolina, and Louisiana do not require district counsel; therefore, SBA's third-party vendor obtains local counsel to perform the judicial foreclosure.

<sup>10</sup> There are state-specific exceptions to these rules not listed here.

<sup>11</sup> Real estate owned properties carry the risk of prolonged carrying costs, deterioration or vandalism of property, and an uncertain timeline for eventual disposition.

<sup>12</sup> Broker price opinions are market valuations performed by a licensed real estate agent or broker who provide an estimated fair market value of property.

based off the property's interior condition, is then obtained before listing the property for sale. Once sold, the net sale proceeds are applied to the delinquent loan balance and interest.

## Objective

Our objective was to evaluate SBA's foreclosure process from when a loan is placed in liquidation.

## Results

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Opportunities exist for SBA to maximize recovery on real estate foreclosures. We found the agency abandoned<sup>13</sup> pursuit of foreclosure on real estate collateral even when the recoverable values exceeded SBA's foreclosure thresholds. We also found the agency unnecessarily increased some borrowers' principal loan balances by an average of \$525 because outstanding requests for property reports and appraisals were not canceled even though foreclosure, or the determination to foreclose, was no longer being pursued and borrowers had entered into workouts. Lastly, we found SBA did not have controls in place to verify that SBA employees, their close relatives and associates, or vendors do not purchase collateral, though we did not identify any concerning transactions at this time.

### **Finding 1: Abandonment of Foreclosure on Real Estate Collateral with Recoverable Value**

We reviewed a statistical sample of 354 out of 4,148 abandoned foreclosures on properties identified to potentially have recoverable value. We noted that SBA abandoned foreclosure of collateral on 58 properties with sufficient recoverable value. We also identified 14 properties the agency recalled from judicial foreclosure due to inaction by district counsel or the DOJ and not because the real estate had an insufficient recoverable value. In total, SBA abandoned foreclosure on 72 properties with recoverable value (see Table 3 below).

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<sup>13</sup> Non-bankrupt borrowers will be referred to the U.S. Department of the Treasury for further recovery, with SBA's lien position remaining for possible future recovery by way of lien release.

**Table 3: Foreclosure Not Pursued for Real Estate Collateral with Recoverable Value**

Reason for Abandoning Foreclosure	Instances Identified	Total Potential Recovery from SBA Declaration
Recoverable value present but marked as insufficient	21	\$956,264
SBA designated as junior lienholder <sup>a</sup>	20	893,557
Judicial foreclosures recalled <sup>b</sup>	20	1,475,834
Other	11	344,563
<b>Total</b>	<b>72</b>	<b>\$3,670,218</b>

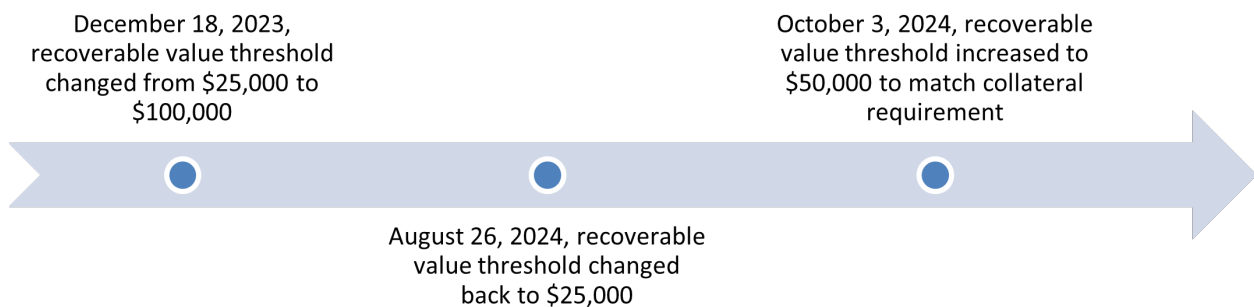
<sup>a</sup> A lienholder is an individual or entity that has legal claim on an asset or property to secure the repayment of a debt, with the senior lien being that which is repaid before other liens, which are called junior liens.

<sup>b</sup> We identified a total of 20 instances: 6 from our statistical sample and 14 during data review.

Source: SBA Office of Inspector General analysis

SBA’s current policy is to refer delinquent loans with an outstanding principal balance greater than \$25,000 for liquidation. Foreclosure will be pursued if the real estate collateral has a recoverable value greater than or equal to \$50,000. As shown on Figure 1, this threshold amount has fluctuated over time.

**Figure 1: Recoverable Value Threshold Changes**



Source: SBA’s National Disaster Loan Resolution Center guidance

As shown previously in Table 3, we grouped SBA’s determination to abandon pursuit of foreclosure on properties with recoverable value into four general categories. The sections below provide details of instances of abandonment of foreclosure for each category.

## **Abandonment of Foreclosure Due to Recoverable Value Marked As Insufficient**

The method for calculating recoverable value considers the interest of the senior lienholder, outstanding property taxes, market conditions, and 10-percent holding and selling costs. The 10-percent holding and selling costs are used for expenses incurred during the foreclosure process and are posted as care and preservation of collateral costs.<sup>14</sup> These costs increase the principal balance of the loan.

Of the 21 properties identified by SBA as having insufficient recoverable value, 2 were determined to have insufficient value without performing an evaluation on recoverable value, and 16 were determined to have insufficient recoverable value during the 8-month period (December 18, 2023, to August 26, 2024) when the recoverable value threshold was increased to \$100,000. SBA increased the threshold while the agency was actively evaluating raising the unsecured loan limit to \$100,000, which ultimately did not occur. As a result, SBA rescinded the \$100,000 threshold and returned to the \$25,000 threshold. To maintain internal policy consistency, the recoverable value threshold amount should not have been increased until the unsecured loan limit was changed, which would have resulted in these properties appropriately being evaluated based on the \$25,000 recoverable value threshold. The remaining three properties identified met the recoverable value threshold at the time they were reviewed, but the agency denoted them as being below the threshold.

## **Abandonment of Foreclosure Due to SBA's Designation as Junior Lienholder**

We identified 20 instances in which SBA abandoned foreclosure on collateral with sufficient calculated recoverable value because the agency was designated as a junior lienholder. The recoverable value is the residual value left after covering the senior lienholder, outstanding property taxes, and the estimated care and preservation costs to cover the loan's outstanding balance and interest. If SBA is designated as a junior lienholder, the agency must include the senior lienholder's recovery amount in the maximum bid calculation.

In an example provided by SBA, if a senior lienholder's lien position is \$300,000, it would be unreasonable to foreclose to recover \$50,000. In this case, the agency must include the senior lienholder's recovery amount and make a maximum bid of \$350,000. If no one outbids SBA's

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<sup>14</sup> Care and preservation of collateral costs can include recoverable expenses such as title reports, appraisals, costs of litigation, property taxes, expenses related to senior lienholders, and general upkeep of a property.

maximum bid at the foreclosure auction, the agency acquires the real property collateral as real estate owned, which requires the agency to pay out the senior lienholder \$300,000. Given the potential risks associated with real estate owned property, such as prolonged carrying costs, deterioration, vandalism, and an uncertain timeline for eventual disposition, this is not a desirable option for the agency.

However, SBA's example does not account for the property's fair market value or recoverable value. In one case, SBA abandoned foreclosure, and the agency conservatively estimated the property's fair market value to be \$234,000. After deducting liquidation and foreclosure costs and a senior lienholder's claim of approximately \$74,000, the property's recoverable value was calculated to be approximately \$94,000. This recoverable value exceeded the outstanding delinquent loan balance of approximately \$68,000. Therefore, SBA should have pursued foreclosure to maximize recovery, as the calculated recoverable value exceeded the outstanding loan amount.

We determined the recoverable value for the 20 properties we reviewed would have covered all or a good portion of the outstanding loan. For 12 of the properties, the recoverable value would have covered the full principal balance of the loan after paying off the senior lienholder.

## **Abandonment of Foreclosure Due to Judicial Foreclosures Recalled**

We identified 20 loans that were recommended for judicial foreclosure but were recalled due to inaction by district counsel or the DOJ. The pursuit of foreclosure was abandoned not due to economic value but because of the following:

- There were 12 instances in which the foreclosure was approved by counsel, but SBA did not refer the case to the DOJ, or if it was referred to the DOJ, there was no activity within 6 months.
- There were eight instances in which the loan specialist recommended judicial foreclosure of a property and forwarded the recommendation for review to area/district counsel, but counsel did not respond within 14 days.

## **Abandonment of Foreclosure Due to Other Reasons**

The remaining 11 abandoned foreclosure properties with recoverable value included 6 properties for which SBA stated there were circumstances that made them undesirable for foreclosure. Loan specialists are directed to review the property report for items such as a rural

market, noted property damage, etc., that would diminish recoverable value. These undesirable factors are to be documented on the recoverable value calculation to justify the additional reductions. However, there was no such documentation in the recoverable value calculation for these six properties.

Contrary to policy, we found four loan balances below \$25,000 that were referred for liquidation. SOP 50 52 2, Chapter 13, Section G states that loans secured by collateral with a balance greater than \$25,000 should be referred to the agency's National Disaster Loan Resolution Center. Yet, these loans were referred, and SBA expended funds to evaluate the properties for foreclosure and determined sufficient recoverable value existed to cover the principal balance in full. However, the agency elected to abandon foreclosure of the properties. Finally, we found SBA abandoned foreclosure on one property because it was a church. SBA officials stated they did not believe it would reflect well on the agency if it foreclosed on this property.

SBA asserted that foreclosure decisions should reflect a careful, comprehensive risk assessment, not merely whether the agency technically can, but rather if the agency responsibly should. The agency's current policy allows loan specialists to deviate from guidelines and is intended to be broad because it provides the greatest leeway for potential swift sale and recovery; however, this leeway may have the opposite effect.

Pursuit of foreclosure was abandoned for real estate collateral contrary to the guidance in the U.S. Department of the Treasury's (Treasury) "Managing Federal Receivables" guide, which states an agency may terminate collection efforts if such action is not economically worthwhile, and SOP 50 52 2, Chapter 18, Section K, which notes that recovery on real property collateral may be abandoned if the collateral has no significant recoverable value. In these cases, collection efforts appear to have been economically worthwhile, as all the properties were determined to have recoverable value.

In total, the 72 properties could have resulted in approximately \$3.7 million in potential recovery had SBA pursued foreclosure. Of these, 43 properties could have had their associated loan's principal balance paid in full (see Table 4 below). Based on our statistical sample, we extrapolate that SBA has similarly abandoned foreclosure on at least 520 properties.<sup>15</sup>

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<sup>15</sup> We could not extrapolate potential recovery costs because the calculated recoverable value is not a field of data captured within SBA's Capital Access Financial System.

**Table 4: Potential Recovery from Foreclosure**

Recoverable Value in Relation to Loan’s Principal Balance	Instances Identified	Total Potential Recovery from SBA Declaration
Full recovery of principal balance	43	2,335,305
Recovery of a portion of the principal balance	25	1,334,913
More information needed	4	Unknown
<b>Total</b>	<b>72</b>	<b>\$3,670,218</b>

Source: SBA Office of Inspector General analysis

## Recommendation

To address SBA abandonment of foreclosure on properties with recoverable value, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 1:** Review the 72 abandoned foreclosure properties and reassess for foreclosure.

**Recommendation 2:** Develop a plan to review the remaining 3,794 potentially improperly abandoned foreclosure properties (4,148 abandoned foreclosure properties less statistical sample of 354) and reassess for foreclosure.

**Recommendation 3:** Establish clear guidelines to prevent abandonment of foreclosure on property when sufficient recoverable value exists.

## Finding 2: Costs Charged to Borrowers

We also reviewed a judgmental sample of over 250 loans in current Regulation X workouts to determine compliance with RESPA. We noted that SBA did not cancel outstanding requests for property reports and appraisals for 19 borrowers who had entered into workout. This resulted in unnecessary care and preservation of collateral costs that increased the borrowers’ principal loan balances by an average of \$525, totaling approximately \$10,000. In addition, the calculated interest on the borrower’s principal balance increased, and if payments were not adjusted for the increased principal balance, the borrower faced balloon payments at the end of their loan terms.

Under RESPA Regulation X, borrowers have the right to request loss mitigation (SBA's loss mitigation option is called a workout) at any point during the foreclosure process except when the request is made within 30 days prior to the scheduled foreclosure sale. If a borrower enters into a workout agreement and provides a good faith payment,<sup>16</sup> the loan specialist is supposed to immediately code the loan status for workout and assist the borrower during the workout process. SBA should then put a hold on all foreclosure activities, including canceling outstanding requests for property reports and appraisals.

However, during our review, we identified one case in which, after receiving the borrower's good faith payment, the loan specialist followed up with the vendor to request a status update on the requested property report and appraisal. In another instance, days after receiving a good faith payment and a returned signed workout agreement letter, the loan specialist received a quote from the vendor for obtaining a property appraisal and approved the fee to proceed with the appraisal. These actions resulted in unnecessary care and preservation of collateral costs being added to the borrowers' principal loan balances. It is also important to note that SBA does not have a contract with these vendors as we reported in Report 21-08, *SBA's Use of Vendors Without a Contract*, February 3, 2021. Without a proper contract, SBA has no assurance that all the care and preservation costs incurred are fair and reasonable.

SBA policy only speaks to what loan specialists should do if a loan is in active foreclosure. The policy does not state what needs to be done if a final foreclosure decision has not been made. Agency officials asserted that in such instances the loan specialist should not initiate or complete a formal foreclosure determination unless, and until, the workout ultimately failed. They noted that such activity would be counterproductive and contrary to the spirit of the workout process to continue preparing the file for foreclosure while the borrower was working in good faith with the agency to cure the default. Officials further stated that by providing this breathing room for the borrower, the agency was demonstrating trust in the borrower's intent to succeed with the workout, encouraging cooperation, and aligning with the shared goal of avoiding foreclosure whenever possible.

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<sup>16</sup> A good faith payment is considered to have been received when the payment is posted to SBA's Capital Access Financial System or if the borrower provides the loan specialist with the confirmation number.

## Recommendations

To address unnecessary costs being charged to borrowers in workout, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 4:** Establish clear guidelines to ensure unnecessary care and preservation of collateral costs are not incurred during active workout.

### **Finding 3: Controls to Prevent the Sale of Collateral to SBA Employees, Their Close Relatives and Associates, or Vendors**

SOP 50 52 2, Chapter 18, Section L prohibits SBA employees and their close relatives and associates from directly or indirectly bidding on, purchasing, or otherwise acquiring title to collateral. This aligns with 5 Code of Federal Regulations § 2635.703, which bars employees from engaging in financial transactions using nonpublic information. Notwithstanding, we found SBA currently does not have any controls in place to ensure compliance with this policy nor does the policy apply to SBA's vendors and their subcontractors. Since SBA employees and vendors have knowledge of the agency's foreclosure process and are privy to how the maximum bid is calculated, they can use this information for self-gain, which is a conflict of interest and can be problematic.

While we did not identify any instances of an employee purchasing real estate collateral, we did identify one instance in which a broker contacted by SBA's vendor tried to purchase a real estate owned property for which they were to provide a broker price opinion. The broker provided a verbal assessment of the property as being worth \$1,000 and, in turn, offered to purchase the property for \$400. Ultimately, although the broker backed out of the purchase, this scenario highlights the conflict of interest and demonstrates why SBA's policy should be extended to its vendors and individuals with whom the vendor contracts to conduct foreclosure services. Typically, contracted entities and their employees are subject to conflict of interest provisions as a term of the contractual agreement. However, SBA does not have contracts with the vendors in this case. Expanding the policy and establishing adequate controls would help ensure all potential conflicts of interest are mitigated and the policy is adhered to.

## Recommendations

To address the issue that no controls exist to prevent the sale of collateral to SBA employees, their close relatives and associates, or vendors, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 5:** Establish controls to verify that SBA employees and their close relatives and associates do not purchase collateral and that these requirements be extended to the agency's vendors and subcontractors.

## Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in Appendix 2. Management agreed with Recommendation 4, partially agreed with Recommendation 3, and disagreed with Recommendations 1, 2, and 5. Management's implemented and planned actions to address Recommendations 3 and 4 satisfy the intent of the recommendations and are resolved. Recommendations 1, 2, and 5 are unresolved, and we will attempt to reach an agreement with SBA management in accordance with our audit follow-up policy.

## Summary of Actions Necessary to Close the Recommendations

The following section summarizes the status of our recommendations and the actions necessary to close them.

### Recommendation 1

To address SBA abandonment of foreclosure on properties with recoverable value, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to review the 72 abandoned foreclosure properties and reassess for foreclosure.

**Status:** Unresolved

SBA management disagreed with this recommendation, stating that the agency carefully reviewed the 72 properties at the time it made the determination not to pursue foreclosure and referred them to Treasury for cross servicing — a lower cost approach with less risk to maximize recovery. Management stated that the agency's liens remain valid and fully enforceable should SBA choose to pursue collection in the future. They further noted that initiating foreclosure

carries significant costs and that there is no SBA requirement mandating foreclosure solely because a debt meets or exceeds a particular threshold. They also stated that the recoverable value worksheets serve only as a guide to refer cases to the Santa Ana Liquidation Center for further evaluation when appropriate.

We continue to believe SBA is missing the opportunity for recovery on a significant portion of these properties. SOP 50 52 2, Chapter 18, Section K states that recovery on real property collateral may be abandoned if the collateral has no significant recoverable value. Because all 72 properties met the recoverable value threshold, we believe the foreclosures on these properties should be reassessed. Further, we identified 20 judicial foreclosures that met or exceeded SBA's foreclosure thresholds but were abandoned due to inaction or inactivity by district counsel or the DOJ rather than as the result of careful review and evaluation. Reviewing the 72 properties would help ensure that SBA has considered all available options and maximized its recovery potential.

This recommendation is unresolved. We will seek resolution of this recommendation in accordance with our audit follow-up policy.

## **Recommendation 2**

To address SBA abandonment of foreclosure on properties with recoverable value, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to develop a plan to review the remaining 3,794 potentially improperly abandoned foreclosure properties (4,148 abandoned foreclosure properties less statistical sample of 354) and reassess for foreclosure.

### **Status:** Unresolved

SBA management disagreed with this recommendation, stating that the agency carefully reviewed the properties at the time it made the determination not to pursue foreclosure and referred them to Treasury for cross servicing — a lower cost approach with less risk to maximize recovery. Management also noted that the agency's liens remain valid and fully enforceable should they choose to pursue collection in the future. In addition, they noted that the recoverable value worksheets serve only as a guide for the servicing department to refer cases to the Santa Ana Liquidation Center for further evaluation when appropriate.

The concerns discussed in response to Recommendation 1 also apply here. As noted in the report, based on our statistical sample, we estimate that SBA has similarly abandoned foreclosure on at least 520 properties. Therefore, we maintain that the agency should develop a

plan to review the remaining 3,794 properties and reassess them for foreclosure action. Doing so would ensure SBA has fully considered all available recovery options and safeguarded taxpayer interests.

This recommendation is unresolved. We will seek resolution of this recommendation in accordance with our audit follow-up policy.

### **Recommendation 3**

To address SBA abandonment of foreclosure on properties with recoverable value, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to establish clear guidelines to prevent abandonment of foreclosure on property when sufficient recoverable value exists.

**Status:** Resolved

SBA management partially agreed with this recommendation, stating that the agency would update current guidelines and revise the agency's approach when considering foreclosure of property versus referral to Treasury for maximizing recoveries. The target implementation date is May 4, 2027.

This recommendation will be closed when management provides evidence that the guidelines have been updated and include language that would prevent the abandonment of foreclosure on property with sufficient recoverable value.

### **Recommendation 4**

To address unnecessary costs being charged to borrowers in workout, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to establish clear guidelines to ensure unnecessary care and preservation of collateral costs are not incurred during active workout.

**Status:** Closed

Management agreed with the recommendation and stated that, in May 2025, the agency established a control requiring prior approval for the ordering of any report and appraisals. Should a workout fail, SBA will then analyze the collateral property to determine if incurring care and preservation of collateral costs is the best path forward. Management provided evidence of this control during our exit conference, and we determined management's actions satisfy the intent of the recommendation. Therefore, the recommendation will be closed upon issuance of this report.

## Recommendation 5

To address the issue that no controls exist to prevent the sale of collateral to SBA employees, their close relatives and associates, or vendors, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to establish controls to verify that SBA employees and their close relatives and associates do not purchase collateral and that these requirements be extended to the agency's vendors and subcontractors.

**Status:** Unresolved

SBA management disagreed with this recommendation, stating that agency employees are subject to federal ethics requirements, have completed the required ethics forms, and receive annual ethics training. Management further stated that developing a new requirement for vendors and subcontractors is operationally burdensome given what they view as an extremely low level of risk.

A low-risk assessment is only appropriate when the likelihood is rare and the consequences of risk are not severe. We believe potential erosion of public trust to be severe in cases of employees using non-public information for financial gain. Communicating ethical requirements to employees is important, and it is part of the five components of internal controls. However, it does not replace the need for establishing and monitoring internal controls that would mitigate conflicts of interest and ensure compliance.

Furthermore, we maintain that SBA retains responsibility for managing risks associated with outsourced work. Federal agencies are expected to assess the service organization's controls, impose requirements that align with risk tolerance, and monitor third-party performance.

This recommendation is unresolved. We will seek resolution of this recommendation in accordance with our audit follow-up policy.

# Appendix 1: Scope and Methodology

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This report presents the results of our audit to evaluate the U.S. Small Business Administration's (SBA) foreclosure process from when a loan is placed in liquidation. Our scope focused on disaster loans between June 1, 2020, and May 31, 2025, for which SBA had initiated the foreclosure process or charged off the loan rather than pursuing foreclosure. We also reviewed current workouts to determine compliance with Real Estate Settlement Procedures Act (RESPA) Regulation X for mitigation of loss (which SBA calls a workout).

To accomplish our objective, we reviewed relevant state and federal laws, regulations, other federal guidance, and information about disaster programs found on the SBA website. We also reviewed SBA policies, standard operating procedures, and other guidance pertaining to liquidation of real estate collateral and workouts. We also interviewed SBA personnel from the Office of Capital Access, primarily from the National Disaster Loan Resolution Center, to gain an understanding of related procedures, practices, and system controls.

We selected a judgmental sample of 50 foreclosures and real estate owned properties along with a statistical sample of 354 from 4,148 abandoned foreclosure properties to identify SBA processes and procedures associated with the liquidation and foreclosure processes. We also reviewed 251 loans in current Regulation X workouts to determine compliance with RESPA.

We conducted this audit in accordance with the Government Accountability Office's *Generally Accepted Government Auditing Standards*. These standards require that we plan and perform audits to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

## Use of Computer-Processed Data

We relied on computer-processed data from SBA's Servicing Center Application, LTrack, for foreclosure and real estate owned data from disaster loans that entered foreclosure and loans that had been marked with abandoned collateral (this designation is used when SBA makes the determination to abandon the pursuit of foreclosure) between June 1, 2020, and May 31, 2025. We also relied on computer-processed data from SBA's loan application processing system contained in the Unified Lending Platform for loans in active workouts on September 11, 2025. We performed limited testing on data extracts to ensure the data was complete, reliable, and met the scope parameters of this evaluation. We also performed a data reliability assessment to

ensure the data materially supported the findings, conclusions, and recommendations. We believe the data was sufficiently reliable to support the findings in this report.

## Assessment of Internal Controls

Internal controls comprise the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The controls include the systems designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, and compliance with provisions of applicable laws and regulations. Internal controls serve to prevent and detect inconsistencies, significant errors, fraud, and noncompliance with provisions of laws and regulations.

We assessed SBA policies and procedures, applicable to the scope of this audit, to determine the internal controls used for compliance with laws and regulations to the extent necessary to satisfy the audit objective. We obtained and reviewed information and data from an SBA management official in the Office of Capital Access regarding SBA’s procedures for the disaster loan liquidation process.

We reviewed the United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*, GAO-25-107721, which provides guidance to federal managers on designing, implementing, and operating an effective internal control system.

The internal control deficiencies we found are discussed in the “Results” section of this report. However, because our review was limited to those internal control components and underlying principles that we found significant to the audit objective, all internal control deficiencies that may have existed at the time of this audit may not have been disclosed. See Table 1-1 for the key internal control components and principles significant to the audit objectives.

**Table 1-1: Internal Controls**

Internal Control Component	Internal Control Principle
Control environment	Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objective.
Control activities	Management should implement control activities through policies.
Monitoring	Management should establish activities to monitor the internal control system and evaluate the results.

Source: Office of Inspector General analysis

## Prior Audit Coverage

The following lists the Office of Inspector General's previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
<a href="#">20-20</a>	<i>Audit of SBA's Compliance with the Debt Collection Improvement Act, as Amended</i>	September 30, 2020
<a href="#">21-08</a>	<i>SBA's Use of Vendors Without a Contract</i>	February 3, 2021
<a href="#">23-16</a>	<i>Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans</i>	September 29, 2023

## **Appendix 2: Agency Response**

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U.S. Small Business Administration  
Response to Draft Report



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

**To:** William Kirk  
Inspector General  
U.S. Small Business Administration (SBA)

**From:** Jihoon Kim,  
Director **JI KIM** Digitally signed by JI KIM  
Office of Financial Program Operations (OFPO) Date: 2026.05.05 10:48:50  
Office of Capital Access -04'00'

**Date:** May 4, 2026

**Subject:** Response to OIG Draft Report – SBA’s Handling of Disaster Assistance Loan Real Estate Foreclosures (Project 25807)

**Background:** SBA is responsible for initiating foreclosures when it determines that doing so is appropriate and makes economic sense. This responsibility encompasses both initiating the foreclosure process and actively monitoring it through to completion.

**Recommendation 1:** Review the 72 abandoned foreclosure properties and reassess for foreclosure.

**SBA Response:** SBA disagrees with this recommendation to reassess the 72 properties that were carefully evaluated and intentionally not foreclosed upon at the time. These properties received careful review and documented analysis at the time of decision. It was determined that foreclosure was not the most effective recovery option. Instead, SBA referred the debts to Treasury for cross-servicing—a lower-cost approach that presents minimal to no risk to the agency to maximize recoveries. Our liens remain valid and fully enforceable should we choose to pursue collection in the future, and any increase in equity (due for example to ongoing payment of senior liens and appreciation in property values) redounds to the benefit of SBA. The agency’s liens remain valid and fully enforceable should SBA choose to pursue foreclosure in the future. Initiating foreclosure carries significant costs, timelines, and risks (including potential exposure in junior lien positions), and recovery rates from foreclosure are often low per Government-Sponsored Enterprise (GSE) data. We continue to believe these decisions were prudent and consistent with maximizing net recovery while protecting the Agency’s limited resources. SBA continues to believe these

decisions were prudent and consistent with maximizing net recovery while protecting Agency resources. There is no SBA requirement mandating foreclosure solely because a debt meets or exceeds a particular threshold; the \$50,000 threshold and completion of the RV worksheet serves only as a guide for referring cases to the Santa Ana Liquidation Center for further evaluation when appropriate. SBA continuously reviews its processes and is committed to strengthening documentation and controls where needed.

**Recommendation 2:** Develop a plan to review the remaining 3,794 potentially improperly abandoned foreclosure properties (4,148 abandoned foreclosure properties less statistical sample of 354) and reassess for foreclosure.

**SBA Response:** SBA disagrees with this recommendation to reassess the approximately 3,794 properties that were carefully evaluated and intentionally not foreclosed upon at the time. SBA disagrees that these properties were “improperly abandoned”. These properties received careful review and documented analysis at the time of decision. The agency determined that foreclosure was not the most effective recovery option. SBA referred the debts to Treasury for cross-servicing—a lower-cost approach that presents minimal to no risk to the agency to maximize recoveries. Our liens remain valid and fully enforceable should we choose to pursue collection in the future, and any increase in equity (due for example to ongoing payment of senior liens and appreciation in property values) redounds to the benefit of SBA. Initiating foreclosure carries significant costs, timelines, and risks (including potential exposure in junior lien positions), and recovery rates from foreclosure are often low per Government-Sponsored Enterprise (GSE) data. We continue to believe these decisions were prudent and consistent with maximizing net recovery while protecting the Agency’s limited resources. There is no SBA requirement mandating foreclosure solely because a debt meets or exceeds a particular threshold; the \$50,000 threshold and completion of the RV worksheet serves only as a guide for referring cases to the Santa Ana Liquidation Center for further evaluation when appropriate. SBA continuously reviews its processes and is committed to strengthening documentation and controls where needed.

**Recommendation 3:** Establish clear guidelines to prevent abandonment of foreclosure on property when sufficient recoverable value exists.

**SBA Response:** SBA partially agrees with this recommendation. SBA will be updating current guidelines, revising the agency’s approach when considering foreclosure of property verses referral to Treasury for maximizing recoveries.

**Final Action Target Date:** May 4, 2027

**Recommendation 4:** Establish clear guidelines to ensure unnecessary care and preservation of collateral costs are not incurred during active workout.

**SBA Response:** SBA agrees with this recommendation. In May 2025, the agency established a control requiring prior approval for the ordering of any report and appraisals. Should a workout fail, the agency will then conduct an analysis of the collateral property to determine if incurring care and preservation of collateral costs is the best path forward.

**Recommendation 5:** Establish controls to verify that SBA employees and their close relatives and associates do not purchase collateral and that these requirements be extended to the agency's vendors and subcontractors.

**SBA Response:** SBA does not agree with this recommendation. SBA employees are subject to federal ethics requirements, have signed applicable ethics forms and completed annual ethics training. Developing a new requirement for vendors and subcontractors is operationally burdensome given the extremely low level of risk.