

Office of Inspector General

Audit Report

Disaster Loans Assigned to the Los Angeles District Office

Report No. 7-6-F-005-004

December 23, 1996

Summary

Shortcomings in Disaster Loan Servicing at the LA District Office

An audit found deficiencies in origination or servicing in 17 of a judgmental sample of 24 disaster loans assigned to the Los Angeles District Office. Origination shortcomings included: approving loans to borrowers that had access to credit elsewhere, overestimating borrower repayment ability, misjudging the impact of undisclosed liens on SBA collateral, not verifying information supplied by borrowers and not detecting or rejecting potentially fraudulent documents. Servicing shortfalls included a lack of: contacting borrowers, following up on servicing actions, enforcing loan terms and responding to early warning signals.

The auditors recommended the establishment of a quality assurance process and increased servicing and liquidation staff.

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**Small Business Administration
Office of Inspector General
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