

Office of Inspector General

Audit Report

SBA Loan Servicing and Debt Collection Activities

Report No. 5-3-H-004-006
March 31, 1995

Summary

We completed an audit of SBA's loan servicing and debt collection activities. The objective of our review was to evaluate the effectiveness of SBA's loan servicing and debt collection procedures for delinquent loans serviced by SBA. In addition, we determined whether the current loan collection and deposit procedures resulted in effective cash management.

Our audit found that enhancements to SBA's loan servicing and debt collection procedures could substantially increase collections. SBA did not have an aggressive program to recover delinquent debt or effective procedures to identify cash management improvements. Specifically, we found the following:

--SBA could maximize collections on delinquent debt and provide for management and technical assistance to delinquent borrowers by having loan officers intensify their servicing of delinquent borrowers. OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," requires agencies to establish aggressive programs for recovering delinquent debt and effective strategies to return debtors to current payment status. We found loan officers:

- (1) did not emphasize site visits to delinquent borrowers,
- (2) lacked expertise in financial statement analysis,
- (3) conducted ineffective site visits, and
- (4) did not take aggressive actions to resolve delinquencies. SBA officials stated they did not have the personnel resources to adequately service delinquent borrowers. As a result, loan officers neither detected severe cases

of impropriety by borrowers nor identified the need for specific management assistance to borrowers.

--Annual collections could be increased by approximately \$18.5 million over the next five years if loans are referred to collection agencies on a more timely basis. SBA procedures for referrals of delinquent borrowers to collection agencies are initiated when a loss is recognized and the account removed from its active receivables, i.e., charged-off, which averages approximately 30 months after an account becomes delinquent. OMB Circular A-129 requires accounts six or more months past due to be turned over to collection agencies.

--Restructuring SBA's procedures for processing field office receipts and collecting bank loan guaranty fees could save SBA approximately \$764,485 over the next five years. The use of express mail to remit receipts and the receipt of bank guaranty fees at field offices resulted in unnecessary costs to SBA and were contrary to Treasury requirements. Treasury Financial Manual, part 6, chapter 8000, requires agencies to implement cost-effective procedures to accelerate cash collections and ensure prompt deposit of receipts.

--The Government could maximize collections and detect delinquent borrowers applying for additional Federal assistance if SBA improved its procedures for referring delinquent borrowers to other agencies. Delinquent commercial loans were not reported to other agencies for Federal salary offset, or to the Department of Housing and Urban Development's (HUD), Credit Alert Interactive Voice Response System (CAIVRS). Delinquent consumer loans were not referred on a timely basis to credit bureaus or to the IRS as income to borrowers when written-off. In addition, SBA did not have a formal administrative offset program to collect delinquent amounts. OMB Circular A-129 establishes requirements for referrals of delinquent accounts. SBA officials stated that SBA currently did not have the system capability to comply with all OMB requirements and believed some requirements were impractical.

On June 28, 1994, we held an exit conference with SBA officials from the Office of Financial Assistance on the tentative results of our audit. On June 30, 1994, we briefed the Deputy Director, Office of Financial Management, on issues related to the Office of the Comptroller. SBA officials were generally in agreement with the tentative results of our audit except for the issue relating to the untimely referral of delinquent debt to collection agencies.

On March 6, 1995, we received written comments from SBA officials. SBA officials agreed to take appropriate action on 10 of the 13 recommendations. SBA officials non-concurred with recommendations which address: (1) referring delinquent accounts to collection agencies and the Internal Revenue Service and (2) including standardized restrictive covenants in loan agreements. We have considered management's comments in finalizing our report. The written comments are included as Appendix B.

We are making 13 recommendations to improve SBA's loan servicing and debt collection activities which include: (1) implementing procedures to refer delinquent accounts to collection agencies on a timely basis, (2) establishing procedures to ensure loan officers perform effective site visits to delinquent borrowers, (3) establishing procedures to require guaranty fees be electronically fund transferred to Denver, and (4) updating SBA's system capabilities to ensure appropriate referrals are made on all delinquent loans.

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