

U.S SMALL BUSINESS ADMINISTRATION
OFFICE OF THE INSPECTOR GENERAL
WASHINGTON, DC 20416



MEMORANDUM AUDIT REPORT
ISSUE DATE: MARCH 6, 2000
NUMBER: 0-08

TO: Anthony J. McMahon, District Director
Illinois District Office

Robert G. Seabrooks

FROM: Robert G. Seabrooks, Assistant Inspector General
for Auditing

SUBJECT: Audit of an Early Defaulted Loan to [Ex. 4]

Attached is a copy of the subject report. The audit identified no instances of noncompliance by the lender that impacted the SBA guarantee. Should you or your staff have any questions, please contact Garry Duncan at 202-205-7732.

Attachment

AUDIT OF
EARLY DEFAULTED LOAN TO [ex. 4]

MEMORANDUM AUDIT REPORT NO. 0-08

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The finding in this report is the conclusion of the OIG's Auditing Division based on testing of the auditee's operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.

FOIA EX. 4

BACKGROUND

The 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. SBA guaranteed loans are made by participating lenders under an agreement (SBA Form 750) to originate, service, and liquidate loans in accordance with Administration rules and regulations.

In April 1996, AT&T Small Business Lending Corporation¹ (lender) approved loan number [REDACTED] to [REDACTED] (borrower). [REDACTED] located in Chicago that sold [REDACTED] products. The operator and sole shareholder of [REDACTED] acquired the business in 1990 for \$140,000 using seller financing. Loan proceeds were used to refinance the balance of the seller financing and to acquire the two-story building that housed the business and three rental units.

The loan closed in August 1996, defaulted in [REDACTED] was placed in liquidation with a principal balance of \$428,028, and had a potential loss \$89,662.

AUDIT SCOPE AND OBJECTIVE

This report provides the conclusions of an audit of the loan. The loan was judgmentally selected for review as part of the Office of Inspector General's ongoing program to audit SBA loans charged off or transferred to liquidation within 36 months of origination (early default).

The audit objective was to determine if the early loan default was caused by lender or borrower's noncompliance with SBA's requirements. To make this determination, we reviewed SBA and lender loan files and the borrower's financial records. We also interviewed district office, lender, and borrower personnel. The audit was conducted between July 1999 and February 2000 in accordance with Government Auditing Standards.

RESULTS OF AUDIT

We did not identify any borrower or lender noncompliance that materially impacted the loan approval decision. We concluded that the loan default resulted from declining business revenue and cash deficits.

FOIA EX-4

¹AT&T was acquired by Newcourt Small Business Lending Corporation, who was subsequently acquired by the CIT Group.

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