

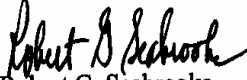


U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

Audit Report Number: 3-13

Date: March 14, 2003

TO: Herbert L. Mitchell, Associate Administrator
Office of Disaster Assistance

FROM: 
Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Audit of Economic Injury Disaster Loans

Attached is a copy of the subject audit report. The report contains one finding and three recommendations addressed to your office. Your response is synopsised in the report and included in its entirety at Appendix F. Based on this response, draft report finding 2 has been eliminated but is mentioned in the Other Matters section of the report because you disagreed with our observations on one of the two loans.

The recommendations are subject to review and implementation of corrective action by your office in accordance with the existing Agency procedures for audit follow-up. Please provide your management decision for the recommendations to our office within 30 days of the date of this report using the attached SBA Forms 1824, Recommendation and Action Sheet. Please advise us if you plan to continue to disagree with the finding and recommendations so this matter may be elevated to the Deputy Administrator for a timely resolution.

Any questions or discussion of the findings and recommendations contained in the report should be directed to Garry Duncan, Director, Credit Programs Group, at (202) 205-7732.

Attachment

**AUDIT OF
ECONOMIC INJURY DISASTER LOANS**

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SUMMARY

The Small Business Administration Disaster Loan Program is the Federal Government's primary method for funding the recovery of small business disaster victims. When such victims need to borrow funds to repair or replace uninsured damages, SBA's low interest rates and long terms make recovery more affordable. Under the authority of the Small Business Act, SBA provides physical and economic injury assistance to business owners, individuals, and non-profit organizations to rebuild, replace personal property, and overcome economic injury.

Economic injury disaster assistance is available only to small business owners who have suffered a substantial economic injury and are unable to obtain credit elsewhere. In addition, economic injury assistance is available to disaster victims who are designated a major source of employment in an area affected by a disaster. The Office of Disaster Assistance administers the Disaster Loan Program.

The audit objectives were to determine whether: (i) economic injury disaster loans were approved for applicants who had used all reasonably available funds and were unable to obtain credit elsewhere, and (ii) disaster assistance loans of \$1 million or more met eligibility criteria relative to size standards and major source of employment designations.

The audit disclosed:

- Borrowers obtained low-interest, taxpayer-subsidized economic injury disaster loans despite having net assets available to use directly to alleviate their economic injury or to provide them credit elsewhere. As a result, for loans of \$150,000 or less approved during fiscal years 1997 through 2000, taxpayers subsidized an estimated \$114 million for individuals and businesses that had the means to alleviate their economic injury.

We recommended that the Associate Administrator, Office of Disaster Assistance:

- Define available net assets.
- Establish a ratio that identifies reasonably available net assets relative to the economic injury loan amount.
- Use empirical data to determine (i) the appropriateness of using the \$750,000 threshold of total net available assets and (ii) the blanket application of the 50 percent equity rule to ascertain available net assets that could be used to alleviate economic injury or obtain credit elsewhere.

The Associate Administrator (AA) for Disaster Assistance disagreed with the finding presented in the report and non-concurred with each of the recommendations. He stated that borrowers who obtained low-interest, taxpayer-subsidized economic injury disaster loans did not have net assets available to alleviate economic injury or obtain credit elsewhere. It was also stated that the audit results did not consider the overall

financial condition of the disaster loan applicants and/or their ability to alleviate the economic injury from their own resources, without undue hardship.

The AA for Disaster Assistance believes SBA established thresholds filter out those applicants who would have undue hardships in financing their own “economic injury”. This standard automatically qualifies more than 80 percent of the business owning families in the United States for taxpayer subsidized economic injury disaster loans and assumes that an applicant with net worth of up to \$1.5 million would suffer undue hardship if they had to use their own money. The standard set by Congress for obtaining an economic injury disaster loan is higher than that of a physical injury loan.

Office of Disaster Assistance comments and our evaluations are included in the body of the report and in their entirety in Appendix F.

INTRODUCTION

A. Background

The Small Business Administration (SBA) Disaster Loan Program is the Federal Government's method for funding the recovery of small business disaster victims. When disaster victims need to borrow funds to repair or replace uninsured damages, SBA's low interest rates and long terms make recovery more affordable. Under the authority of the Small Business Act, SBA provides physical and economic injury assistance to business owners, individuals, and non-profit organizations to rebuild, replace personal property, and overcome economic injury. This type of disaster assistance is available only to small business owners who have suffered a substantial economic injury and are unable to obtain credit elsewhere. In addition, economic injury assistance is available to disaster victims who are a designated major source of employment in an area affected by a disaster.

The Office of Disaster Assistance (ODA) administers the economic injury disaster assistance program as defined by the Small Business Act through four Disaster Area Offices. The Disaster Area Offices review loan applications and determine eligibility for economic injury assistance in accordance with policy and procedural guidance provided in accordance with the Small Business Act (Amended), Title 13 Code of Federal Regulation (CFR), Section 123.000, and Standard Operating Procedure (SOP) 50 30. ODA processes disaster assistance loan applications for businesses using one of three methodologies. Under Phase I, businesses that sustain a physical loss are automatically given economic injury disaster assistance equal to two months gross margin of their annual sales. ODA uses Phase II and Phase III methodologies when applicants desire additional assistance or have not sustained a physical injury.

Between Fiscal Years (FY) 1997 to FY 2000, ODA approved over 16,600 disaster assistance loans with an economic injury component of \$150,000 or less. These loans represented about \$725 million and \$310 million in total disaster assistance and economic injury assistance, respectfully. Between FY 1994 and FY 2000, ODA approved 17 loans providing \$1 million or more of disaster assistance. Those loans totaled over \$45 million with \$38 million attributed to economic injury assistance.

B. Objective and Scope

The audit objective was to determine whether: i) economic injury disaster loans (EIDLs) were approved for applicants who had used all reasonably available funds and were unable to obtain credit elsewhere, and ii) disaster assistance loans of \$1 million or more met eligibility criteria relative to size standards and major source of employment designations. Audit fieldwork was performed from December 2001 through April 2002. The audit was performed in accordance with generally accepted Government Auditing Standards.

We statistically selected and reviewed 98 economic injury disaster loans approved between FY 1997 and FY 2000 for \$150,000 or less to determine whether appropriate

consideration was given to reasonably available borrower assets or recoveries (see Appendix A). We reviewed each loan to obtain information on the applicants' available assets. Using the audit results from the statistical sample, we determined the amount of economic injury assistance that could have been saved had appropriate consideration been given to reasonably available net assets (see Appendix B).

Fourteen files for loans approved in excess of \$1 million or more between FY 1994 and FY 2000 were also reviewed to determine whether applicants qualified for economic injury disaster assistance based on criteria governing size requirements and major source of employment designations. We reviewed loan files and records supporting SBA processing and economic injury disaster loan benefit determinations and interviewed key SBA program officials.

RESULTS OF AUDIT

FINDING Taxpayers Subsidized Economic Injury Disaster Loans Provided to Borrowers with Substantial Assets

Borrowers obtained low-interest taxpayer subsidized economic injury disaster loans despite having net assets available to use directly to alleviate their economic injury or enable them to obtain credit elsewhere. For example, where applicants had at least \$10 in available net assets for every \$1 of economic injury assistance provided, SBA disbursed a projected \$114 million in economic injury loan assistance over a 4-year period. Using this example, taxpayers paid an estimated \$25.1 million to subsidize applicants with the ability to help themselves. This occurred because SBA procedures provided two months of economic injury benefits automatically and deemed borrowers eligible by concluding they were unable to obtain credit elsewhere even though they had available net assets of up to \$750,000¹. In addition, SBA did not consider the relationship of available net assets to the economic injury sustained by the borrower.

Guidance for the identification of available assets

SBA is authorized by public law to provide economic injury assistance to small business concerns that have suffered a substantial economic injury as a result of a disaster, provided that the applicant is not able to obtain credit elsewhere. SBA further defines EIDL eligibility in 13 CFR 123.300(b), which states EIDL assistance is available only after the business, its affiliates, and principal owners have used all reasonably available funds and are unable to obtain credit elsewhere. SOP 50 30, Appendix 20, 3, Section V(d), states EIDL applicants are required “to use personal and business assets to alleviate the injury to the greatest extent feasible, without incurring hardship”.

- To simplify EIDL loan processing, however, SBA established additional SOP procedures. These procedures used two exclusions and a threshold that allow borrowers to have a net worth of as much as \$1,125,000 and still qualify as not having reasonably available net assets to offset their economic injury. The first exclusion omitted all assets where the borrower has less than 50 percent equity in the asset. For example, the business partners receiving loan # [FOIA Ex. 4] had four pieces of real estate with a combined equity value of \$405,500. There was less than 50 percent equity in two of the four properties. SBA excluded these properties even though the equity value was \$158,000. Therefore, only \$247,500 of the total equity in the four properties was considered in determining credit elsewhere.
- The second exclusion omits \$375,000 of the principal’s net asset value then considers only the percentage of the net assets equivalent to the

¹ In Memorandum #1-54, dated October 4, 2001, the \$750,000 threshold was increased to \$1.5 million.

principal's ownership in the business. In the above example, there were three principals owning one-third of the business.

- The first principal had \$586,100 in net assets: \$35,900 in cash, \$272,700 in stocks/bonds, \$196,000 equity in personal real estate, \$51,500 equity in other real estate, and \$30,000 in personal accounts receivable. The \$375,000 exclusion reduced the net value of these assets to \$211,100. Per SOP guidance, this principal had available net assets of approximately \$70,300 (33.3 percent of the principal's \$211,100 net assets).
 - The second principal had \$347,000 in net assets consisting of \$13,000 in cash, \$214,000 in stocks/bonds, and \$120,000 in personal accounts receivable, but excluded \$63,000 equity in personal real estate. As stated above the \$63,000 was excluded because there was only 42 percent equity in the property. All of this principal's assets were excluded when the \$375,000 exclusion was applied.
 - The third principal had \$107,000 in net assets consisting of \$15,000 in cash, \$68,000 in stocks/bonds, and \$24,000 in personal accounts receivable, but excluded \$95,000 equity in personal real estate. The \$95,000 was excluded because there was 35.8 percent equity in the property. Again, application of the \$375,000 excluded all of this principal's net assets from consideration.
- The results for each applicant are totaled. In this example, the applicant had \$49,700 in net assets, the first principal had \$70,300, and the second and third principals had no net assets. Available net assets totaled \$121,000. This amount is what ODA considered reasonably available to offset the applicant's economic injury need.
 - Lastly, the net asset value threshold is applied. If the sum of the assets' value does not exceed \$750,000, none of the assets were considered available and the applicant was deemed eligible for economic assistance. Therefore, despite the applicant and its principals having nearly \$1,250,000 in net assets, they were still eligible for a \$100,000 economic injury disaster loan.

While SBA has the legal authority to impose exclusions and set thresholds in calculating net available assets, its practices result in taxpayers subsidizing economic injury disaster loans to applicants who had significant net assets or were able to obtain credit elsewhere. ODA could not provide evidence to support that the exclusions and threshold amounts were appropriate.

Updated guidance for the identification of available assets

In October 2001, SBA changed its procedures for identifying available net assets applicants could use to obtain credit elsewhere. Among other changes to the procedures, Memorandum #01-54 - Credit Elsewhere Test, added an exclusion, removed another, and doubled the net asset exclusion value threshold. The exclusion that was added excludes each principal's primary residence when determining the principal's net asset value. The exclusion that was removed was the \$375,000 allowance given to each principal prior to calculating available net assets. Lastly, SBA increased the \$750,000 threshold to \$1.5 million. According to the memorandum, the changes were "to simplify the test and standardize it between home and business loan processing." Again, ODA could not provide justification that exclusions and threshold amounts were appropriate for determining that applicants could not assist in alleviating their economic injury or obtain credit elsewhere with the net assets available to them.

Identification of available assets by Office of Disaster Assistance

ODA determined that none of the 98 loan applicants reviewed could obtain credit elsewhere. The credit elsewhere exclusions negated the availability of net assets held by the applicant. For the loans reviewed, Table 1.1 shows, the economic injury assistance provided, the value of net assets identified using ODA available asset exclusions, the portion of those assets that were liquid, and the value of the net assets ODA considered for use by the applicant to alleviate its economic injury.

<u>Total EIDL Loan Amount</u>	<u>Total Net Assets Identified</u>	<u>Total Liquid Assets Identified</u>	<u>Total Assets Considered</u>
\$1,693,500	\$11,946,294	\$1,348,212	\$0

The SOP for two processing methodologies specifically states that if ODA determines that the applicant has no available credit elsewhere, the loan officer must assume that no personal, business, or affiliate resources are available to offset the economic injury. Processing practices for the third methodology also results in the conclusion that no resources are available because potentially available asset values are disregarded during the credit elsewhere determination. Examples where reasonably available net assets were identified but excluded from consideration are included in Appendix C.

Using available assets in lieu of disaster assistance

Our analysis found economic injury disaster loan applicants had net assets¹ that could be used to alleviate their economic injury. The analysis showed, at the high end of the spectrum, loan applicants had as much as \$470 in adjusted net asset value for every

¹ Household and other personal items, personal vehicles, retirement accounts, the value of life insurance policies, and intangible assets were not included when determining available net assets.

\$1 of economic injury assistance provided. This occurred because SBA gave no consideration to available net assets when approving economic injury loans.

To evaluate the extent to which taxpayers were subsidizing individuals with net available assets to alleviate their economic injury, we used four ratio levels 15:1, 10:1, 5:1, and 3:1. Our analysis of the 98 loans reviewed showed that: 54 applicants had at least \$15 in net assets for every \$1 of economic injury assistance provided; 61 had at least \$10 in net assets for every dollar of assistance; 70 had at least \$5 for every \$1 of assistance; and 79 loans had at least \$3 for every \$1 of economic injury assistance (see Appendix D).

Because the SOP does not clearly define available net assets, Table 1.2 presents our findings using three different definitions for available net assets. Each column shows the number of applicants with assets per definition and the total value of these assets. The second column (Available Net Assets) includes the net value of all assets identified. The third column (Liquid Assets) is the total value of cash, savings, stocks, and bonds identified. The fourth column (Cash) is the total amount of cash including checking and savings accounts identified.

	<u>Economic Injury Loans</u>	<u>Available Net Assets</u>	<u>Available Liquid Assets</u>	<u>Available Cash</u>
Number of Applicants	98	97	90	90
Total Value	\$1,693,500	\$21,889,331	\$3,395,170	\$1,195,210

Taxpayers subsidized economic injury disaster loans to applicants

Taxpayers subsidized individuals and businesses at an average subsidy rate of 22.01 percent from FY 1997 through FY 2000 when available net assets were not considered. Projecting the audit results for 61 of the 98 sample loans where the applicant had \$10 in net assets for every \$1 of economic injury assistance (see Appendix E), an estimated \$25.1 million in economic injury disaster assistance was subsidized for applicants who had reasonably available net assets to alleviate their economic injury (see Appendix B).

Individuals and businesses were not required to use their available assets to alleviate economic injury because of ODA's arbitrarily set exclusions and threshold. Over the 4-year review period, four applicants had at least \$1 million in available net assets. There were nine with between \$1 million and a half million dollars in available net assets. Another 40 applicants had at least \$100,000 of available net assets. Continued use of ODA's current practices, exemptions, and the newly revised \$1.5 million threshold will result in taxpayers subsidizing even more individuals and businesses for EIDLs who have substantial available net assets.

RECOMMENDATIONS

We recommend that the Associate Administrator, Office of Disaster Assistance take the following actions:

- 1.A Define the term “available net assets”.
- 1.B Establish a ratio that identifies reasonable available net assets relative to the economic injury loan amount.
- 1.C Use empirical data to determine the appropriateness of using the \$750,000 threshold of total net available assets and the blanket application of the 50 Percent Equity Rule in determining available net assets that could be used to alleviate economic injury or obtain credit elsewhere.

Management Comments

The Associate Administrator for Disaster Assistance stated he considered the finding and evaluated its basis. He disagreed with the finding and recommendations. See Appendix F for the full text of the responses from the Associate Administrator, Office of Disaster Assistance.

Finding

He stated that the findings basis was “too narrow in scope to allow SBA to meet its legislative and congressional mandate to properly administer the Economic Injury Disaster Loan Program”. It is the AA for Disaster Assistance position that SBA procedures for determining the availability of credit elsewhere have been developed over the years to meet the legislative and congressional intent of the Small Business Act and to the extent possible, current SBA credit elsewhere procedures meet that obligation. Moreover, the OIG formula does not consider, nor does the AA for Disaster Assistance believe it is possible for anyone to construct an absolute formula that would consider all the required factors to determine a business and its owner’s true ability to obtain credit elsewhere without undue hardship.

The AA for Disaster Assistance referred to the definition of “credit elsewhere” in the Small Business Act to base his eligibility requirements and to express his mission in its proper context. The Act states, “For purposes of this Act, the term “credit elsewhere” means the availability of credit from non-Federal sources on reasonable terms and conditions taking into consideration the prevailing rates and terms in the community in or near where the concern transacts business, or the homeowner resides, for similar purposes and periods of time.

Additionally, the House Committee on Small Business, of the Ninety-Eighth Congress, First Session, published a summary report of SBA programs for the Congress in 1983 which speaks to eligibility for economic injury loans. In the House Committee’s letter of transmittal they state; “The Committee on Small Business has for some years published a summary of SBA programs, outlining their principal purposes, terms and eligibility requirements.” Under “Eligibility” for Economic Injury Disaster Loans this

report states, “in the case of economic injury disaster loans, SBA requires personal and/or business assets to be used by the applicant to the greatest extent feasible, without undue hardship, to alleviate the injury incurred.”

The AA for Disaster Assistance does not believe the OIG’s (available net assets to economic injury) formula meets the requirements of the credit elsewhere test in the Small Business Act because it does not: (i) analyze cash flow to determine cash available for debt servicing, and (ii) measure the applicant’s ability to utilize available net worth (assets) to overcome its disaster loss. The AA for Disaster Assistance stated that their “available net worth (assets) test” places the threshold at a level where a business and its affiliates can reasonably be considered not to have sufficient available net worth (assets) to secure outside financing to offset their disaster losses, without undue hardship. This is because SBA will not require disaster victims to dispose of assets to offset economic injury or consider what the applicant, principals, and affiliates can pledge for private sector financing. For each recommendation, the AA for Disaster Assistance response is summarized below.

Recommendation 1.A

The procedures in place in SOP 50 30 04 Appendix 25 already define and provide instructions on how to calculate cash flow and available net worth (assets), which are more relevant. We do not see any value in defining the term available net assets or using the approach suggested in this report to create eligibility for Economic Injury Disaster Loan Applicants. To do so would unreasonably limit the scope of SBA current analysis procedures causing unnecessary and additional financial hardship to disaster affected small businesses.

Recommendation 1.B

Establishing a fixed ratio for all disaster loans to establish economic injury loan eligibility is not a reasonable approach. To do so assumes all available net assets of the business are available to offset the effects of a disaster, which is not a reasonable assumption. If we require a business to use all available assets to address the economic injury associated with a disaster, we could very well put some businesses in a position of jeopardizing their relationship with their private sector lenders, by adversely affecting key operating thresholds such as net worth to debt, working capital, and so on or forcing a business to liquidate an asset that is needed to generate income. Consideration of the credit available elsewhere under reasonable conditions and terms must undergo a broader and more complete financial analysis in order to determine if the use of such assets would not cause an undue hardship.

Recommendation 1.C

We are not aware of any empirical data that would accurately establish an available net asset threshold that one could use to conclude that the applicant has “credit available elsewhere” or the ability to use their available assets to alleviate the economic injury without undue hardship. As previously mentioned, commercial credit underwriters

generally consider many more factors than just available net assets in making a determination of whether or not to grant a loan. We believe that it is critically important to consider the applicant's overall financial condition as well. We also believe that the thresholds that we have set are reasonable, given the mission of the program. The rationale for excluding property that is more than 50 percent encumbered is based on the assumption that it would be very difficult to obtain a loan on reasonable terms and conditions on such property.

OIG Evaluation of Office of Disaster Assistance Comments

The Office of Disaster Assistance believes the SBA established thresholds filter out those applicants who would have undue hardships in financing their own "economic injury". SBA's standard automatically qualifies more than 80 percent of the business owning families in the United States for taxpayer-subsidized EIDLs and assumes that an applicant with net worth of up to \$1.5 million would suffer undue hardship if they had to use their own money. Obviously, an applicant would suffer little or no hardship if his/her own funds did not have to be used. The issue addressed in this report is how to balance the cost of heavily subsidized EIDLs and the requirement to use one's net assets to the extent feasible, without undue hardship. The cost of such hardship is borne by the United States taxpayers, of whom almost 50 percent have net assets of less than \$50,000 and 60 percent have net worth of less than \$99,000.

The standard set by Congress for obtaining an EIDL loan is higher than that of a physical injury loan. SBA could set a lower threshold or use additional analytical tests as we recommended and if the business could not afford to fund recovery with its own resources, a hardship waiver could be requested and granted, if justified.

The largest portion of economic injury loans results from SBA's policy to automatically grant a loan to any business that receives a physical injury loan. The exception is for those applicants that fall in the upper 20 percent of wealth accumulators (i.e., net worth) of families that own businesses who are screened out using the current criteria. In our sample, 57 of the 98 economic injury portions of loans were less than \$10,000 and 8 were less than \$1,000. It is difficult to believe that many of these applicants with a net worth equaling 10 times or more would suffer undue hardship to finance their injury from their own borrowing capacity. However, because each disaster and each applicant may have unique circumstances, we are not recommending that an applicant be denied an EIDL. Rather we are recommending that the screening method be changed. Those with higher levels of net worth should be evaluated on the merits of the need and undue hardship and not automatically provided EIDL.

Recommendation 1.A

ODA takes exception to the net assets identified as reasonably available in the audit report examples. A definition of what is an available net asset will result in a clear listing of all tangible assets that can be evaluated for their usefulness directly or in obtaining credit elsewhere to alleviate economic injury.

We do not believe the instructions in SOP 50 30 4, Appendix 25, adequately define, identify, or document available net assets. By definition, the instructions show how to calculate cash flow and available net worth. According to the 1983 Congressional summary, “to be eligible for an economic injury disaster loan, use of personal and/or business assets by the applicant, to the greatest extent feasible, without undue hardship, to alleviate the injury incurred”, is required. Cash flow and available net worth are necessary to determine whether applicants can obtain credit from a non-government source. Identification and valuation of all available net assets are necessary before a determination as to whether personal and or business assets can be used.

Currently Appendix 25 of SOP 50 30 4 provides instruction to loan officers on how to complete the Business Credit Elsewhere Test. In those instructions, the guidance delineates which assets are not to be considered. For this audit, net asset values were determined using the adjusted net assets definition provided by SOP 50 30 4, Appendix 25. Except for blanket exclusion of the 50 percent encumbered asset rule exclusion, all assets based on SOP 50 30, Appendix 25, Paragraph 2c were identified and documented. The asset values were calculated using the market values and any prior liens and damages documented by ODA in the loan file. In our opinion, documenting all identified assets and their net values will not “limit the scope of SBA current analysis procedures,” but put it more in line with the congressional intent of the economic injury assistance program.

The value added will be compliance with public law and congressional intent of the economic injury program. Any additional limitations on an asset’s availability, such as business inventories, machinery and equipment, or assets with multiple liens, can be made part of ODA’s reasonably available assessment.

Recommendation 1.B

The recommendation was not to establish “a fixed ratio for all disaster loans to establish economic injury loan eligibility” nor was it to “require a business to use all available assets to address the economic injury associated with a disaster”. The audit addressed the requirements applicants must satisfy to be eligible for the economic injury portion of any disaster assistance provided.

The relationship of reasonably available assets to economic injury is key to assessing the extent net assets are available to the applicant to alleviate any economic injury. In keeping with the program’s requirement not to use business or personal assets to the extent that it causes an “undue hardship”, a ratio will allow SBA to set a level that would evaluate assets for reasonable use. For those applicants where it appears there are assets available, ODA can assess the impact on financial performance indicators important to private sector lenders such as net worth to debt, working capital, and so on to determine to what extent those assets are reasonably available.

[FOIA Ex. 4] showed: i) why an established ratio, full identification, and accurate valuation of all assets is recommended, and ii) how current credit elsewhere procedures result in SBA providing economic injury assistance to applicants with reasonably available assets that could be used without causing undue hardship. The applicant sustained a \$30,000 physical loss and was approved for a physical disaster loan. The

applicant was also granted a \$2,100 economic injury loan. Credit elsewhere procedures were applied to determine whether the applicant could obtain credit elsewhere. There was no assessment of whether the applicant could use its assets to alleviate part or all of the economic injury. Per the information ODA documented, the applicant had \$182,800 equity in a primary residence, \$299,300 equity in rental property (the applicant owned the property free and clear), and \$6,000 cash. ODA's argument for not assessing assets for reasonable usefulness was the applicant's inability to obtain credit elsewhere which was deemed when ODA granted the applicant a waiver. The \$2,100 economic injury disaster loan was to cover the loss of 2 months rental income on rental property valued at \$325,000 owned free and clear. For the same property, the applicant received a 30-year 4percent interest loan for \$25,700 to cover damages caused by the disaster. In addition, the applicant had a 5-month deferment before the initial payment was due. As reported by ODA, the applicant had an annual salary of \$78,900. Additional net income of \$2,400 per year was earned on rental property. The applicant also owned a primary residence. Although there were other assets, they were not considered per SOP 50 30. After damages and prior liens on the properties, there was \$482,000 in equity.

Application of the credit elsewhere procedures and waiver allowed the applicant \$2,800 to cover monthly fixed debt, \$3,100 per month to cover everyday living expenses, \$6,000 cash, a low interest physical loan, economic injury assistance, and a 5-month reprieve before any loan payments. The credit elsewhere procedures concluded the applicant could not help himself without undue hardship.

While ODA disagreed this example represented situations where reasonably available net assets were identified but excluded from consideration and believed the information reported was "misleading and do not provide meaningful information to support the OIG's finding", in our opinion, this example is typical of conditions found during the audit. As noted by ODA, this was a family of four, excluding the rental income, making nearly \$79,000 per year. The credit elsewhere procedures allowed this applicant to maintain its standard of living, retain its savings, receive economic injury compensation for mortgage expenses it did not have, as well as have a 5-month reprieve from repaying the loan. These benefits were financed through taxes paid by tax payers who had a median household income of \$42,228.

Recommendation 1.C

In meeting the mission of the program, ODA is responsible for ensuring they operate within the guidelines established for the program. The 1983 Congressional summary states that to receive economic injury assistance, the applicant must use personal and or business assets to the greatest extent feasible, barring undue hardship. Setting guidelines based on "field test of previous SBA performance" and "assumption" does not provide reasonable assurance that the congressional intent of the economic injury program is being met. ODA can use actual data to test the validity of the current exclusions and threshold to determine whether they are in line with the requirements for funding from non-Federal sources.

ODA believes "...that the thresholds that we have set are reasonable, given the mission of the program. They offer no evidence, however, that unless an applicant has

\$1.5 million or more he is unable to help himself without undue harm. ODA claims “the applicants overall condition must be considered”. They appear to use the \$1.5 million threshold to set the level where “overall financial condition” equates to the ability to obtain a loan from a non-federal source.

ODA reports that they “did field test the current procedures to compare results of the proposed changes with the credit elsewhere results on loans that had already been processed under the previous guidelines.” and found “The field test results of the field test credit elsewhere determinations were very similar on both the “before” and “after” processing.” Without validation that the “before” results were reasonable, comparing “after” results is questionable.

In addition, ODA argues “The rationale for excluding property that is more than 50 percent encumbered is based on the assumption that it would be very difficult to obtain a loan on reasonable terms and conditions on such property.” Empirical data would support the blanket application of this rule.

OTHER MATTERS

An applicant [FOIA Ex. 4] received economic injury disaster assistance based on an unsupported change made to the Standard Industrial Classification (SIC) provided on the original loan application. The unsupported change was made because there is no SBA requirement to document the justification for such a change.

The SIC code initially identified as the applicant’s primary industry was changed. The applicant sought a major source of employment designation. According to SOP 50 30, Chapter 12, applicants seeking economic injury assistance, must be small business concerns. A small business is defined as one in which average annual receipts or number of employees does not exceed the size standard for the primary industry that the business and its affiliates engage in. The primary industry and the applicable size standard are determined by the business activity that generated the largest distribution of receipts or employees during the full fiscal year prior to the disaster. Once the primary activity is identified, average annual sales are compared to the size standard established under the SIC System.

There is one exception to the small business requirement for economic injury loans exceeding \$0.5 million (prior to October 1994) or \$1.5 million (post October 1994). Businesses are eligible for disaster assistance in excess of \$0.5 million/\$1.5 million if they are designated a major source of employment. To be designated a major source of employment, an applicant must employ 10 percent of the disaster areas’ workforce in its primary industry (SIC Code). SBA does not require documented support of the SIC code, the element of measurement, or corresponding percentage of activity when a change is made.

The applicant accepted its classification as a pre-packaged computer software operation when it was approved for an initial loan. When the applicant found its subsequent application for economic assistance could not be approved unless it was

designated a major source of employment, it requested reclassification to the SIC for businesses primarily engaged in creating integrated computer systems. It had recently entered into a business venture that would combine and sell software and computers. Using the standard industry classification of the applicant's initially approved disaster loan, which corresponded with the sales and product base, the applicant did not employ enough people to qualify as a major source of employment.

Two subsequent reviews, conducted by a disaster area office loan officer, found the applicant was primarily engaged in the design, development, and production of pre-packaged computer software. Each review supported the position that the initial classification was appropriate, citing sales were strictly from the sale of pre-packaged software. The loan file did contain a brochure for its new venture, the "DUO Computer". This was the system presented by the applicant as support to change its SIC code. However, the applicant's financial statements did not show revenues generated by the DUO system, the employees dedicated to the new effort, or the dollars expended for this new project that would support the applicant was primarily engaged in creating integrated computer systems.

After a meeting with ODA management, congressional representatives, and the applicant's top management, the SIC code was changed from a pre-packaged software developer to an integrated computer system developer. The change was made despite the two subsequent DAO loan officer reviews declining SIC code re-classification. Without the designation, the applicant was ineligible for disaster economic injury assistance. The change in SIC code allowed the applicant to meet the employment levels needed to be designated a major source of employment and qualify for a \$4.4 million economic injury disaster assistance loan.

According to a meeting memorandum, the applicant discussed his business operations with ODA officials. The meeting memorandum did not provide any details on the information presented by the applicant or used to support ODA's decision to reclassify the applicant. A follow-up memorandum to clarify the decision made at the meeting also lacked a clear explanation or support for the change. Even though there was no identifiable basis for the reclassification, the applicant was designated a major source of employment and given a \$4.4 million economic injury disaster loan.

We suggest that ODA document any changes made to the originally identified standard industrial classification code.

Listing of Sample Loans Reviewed

Sample Loan Files Reviewed			
Sample Number	Loan Number	Gross Approved Amount	EIDL Portion
		\$20,600	\$14,300
[FOIA Ex. 4]	[FOIA Ex. 4]	13,200	2,000
		23,000	23,000
		25,400	12,500
		44,600	4,700
		40,400	40,400
		2,100	2,100
		5,000	5,000
		4,300	1,400
		39,500	27,400
		13,700	4,500
		300,400	1,600
		57,900	21,200
		18,100	5,600
		18,400	14,500
		2,000	2,000
		87,000	2,000
		4,900	4,900
		24,000	200
		5,000	5,000
		10,000	10,000
		11,400	1,900
		23,200	7,000
		13,300	8,100
		93,500	4,800
		5,000	5,000
		10,000	6,000
		6,600	2,800
		14,400	3,800
		10,000	1,200
		21,500	7,000
		9,200	9,200
		61,200	61,200
		3,200	3,200
		2,100	600
		55,100	41,300
		16,000	3,000
		56,900	35,000
		132,000	46,700
		27,300	14,200
		19,600	4,600
		25,100	25,100
		47,400	30,900
		88,000	6,500
		3,600	600
		256,800	100,000

Listing of Sample Loans Reviewed

Sample Loan Files Reviewed (Cont.)			
<u>Sample Number</u>	<u>Loan Number</u>	<u>Gross Approved Amount</u>	<u>EIDL Portion</u>
		25,000	12,600
		10,000	4,500
[FOIA Ex. 4]	[FOIA Ex. 4]	124,300	42,200
		16,500	3,600
		92,200	23,600
		23,400	6,200
		19,000	19,000
		3,400	3,400
		10,000	800
		40,500	40,500
		10,000	5,300
		48,600	25,500
		65,700	65,700
		19,500	1,600
		222,600	10,000
		3,500	3,500
		52,900	52,900
		30,500	2,500
		22,700	22,700
		5,000	5,000
		457,900	100,000
		46,900	2,600
		157,600	87,100
		68,400	68,400
		34,200	1,000
		7,300	2,200
		37,900	3,700
		114,900	114,900
		5,000	5,000
		42,900	15,200
		47,700	8,000
		5,100	1,100
		26,500	8,500
		241,300	28,600
		4,000	4,000
		9,600	9,600
		25,000	15,000
		5,000	5,000
		20,900	600
		7,400	500
		1,600	1,600
		32,000	32,000
		21,200	21,200
		4,000	4,000
		2,200	900
		10,000	600

Listing of Sample Loans Reviewed

Sample Loan Files Reviewed (Cont.)			
<u>Sample Number</u>	<u>Loan Number</u>	<u>Gross Approved Amount</u>	<u>EIDL Portion</u>
		119,500	21,100
[FOIA Ex. 4]	[FOIA Ex. 4]	96,600	51,400
		18,200	18,200
		5,000	1,800
		78,900	32,900
		41,700	41,700
98		\$4,413,600	\$1,693,500

Statistical Sampling Plan

Selection of Sample Loans

Description:

Disaster loans approved for \$150,000 or less from fiscal years 1997 through fiscal years 2000 with an economic component.

Audit Universe:

Number: 16,661

Dollars: \$310,106,467

Audit Sample:

Confidence Level: 90%

Tolerable Deviation: 8%

Expected Deviation: 4%

Size: 98

Projection of Audit Finding

Value of Economic Injury Assistance Loans Over the 4-year Period					
<u>ANA to EIDL Ratio</u>	<u>Number of Applicants</u>	<u>Total EIDL Value</u>	<u>Projected Value (in millions)</u>		
			<u>High Point</u>	<u>Mid-Point</u>	<u>Low Point</u>
15:1	54	\$435,200	\$100	\$74	\$48
10:1	61	\$670,000	\$155	\$114	\$73
5:1	70	\$935,700	\$209	\$159	\$109
3:1	79	\$1,217,500	\$264	\$207	\$150

Estimation of Extent Taxpayers Subsidized Economic Injury Loans				
<u>ANA to EIDL Ratio</u>	<u>Subsidy Rate</u>	<u>Projected Value (in millions)</u>		
		<u>High Point</u>	<u>Mid-Point</u>	<u>Low Point</u>
15:1	22.01%	\$22.0	\$16.3	\$10.6
10:1	22.01%	\$34.1	\$25.1	\$16.1
5:1	22.01%	\$46.0	\$35.0	\$24.0
3:1	22.01%	\$58.1	\$45.6	\$33.0

Examples of Applicants With Available Assets to Offset Their Economic Injury

Sample [Ex. 4]: The applicant had \$1.2 million in net assets and received a \$23,000 economic injury loan. The total loan amount was \$23,000. The assets included \$31,025 in cash, \$192,954 in mutual funds, \$40,000 (100 percent) equity in commercial property, \$78,500 (100 percent) equity in rental property, \$110,850 (100 percent) equity in city lots, \$167,600 (42 percent) equity in business real estate, and \$619,668 (100 percent) in other business net assets. The ratio of net assets to the EIDL loan amount was 54 to 1. Using ODA's available asset exclusions, net assets of \$697,997 were identified. The ratio of net assets to EIDL loan amount using ODA mythology was 30 to 1.

The \$167,600 (42 percent) equity in business real estate was not considered because of the 50 percent equity rule and the principal was given the allowable \$375,000 exemption. The remaining \$697,997 was not considered because of the \$750,000 net asset threshold.

Sample [Ex. 4]: The applicant was approved for a \$2,100 economic injury loan to assist with income losses to its rental property. We found the applicant had \$488,100 in net assets. The assets included \$6,000 in cash, \$299,300 (92 percent) equity in the rental property, and \$182,800 (49 percent) equity in their personal residence. The ratio of net assets to the EIDL loan amount was 232 to 1. Using ODA's available asset thresholds, \$305,300 (\$6,000 + \$299,300 - \$182,800) in net assets were identified. The ratio of net assets to EIDL loan amount using ODA figures was 145 to 1.

The applicant had available net assets, but was deemed not to have resources available to offset the economic injury. The \$182,800 (48 percent) in equity while substantial was not considered because of the 50 percent equity rule. The \$6,000 in cash and \$299,300 in equity was not considered because of the \$750,000 net asset threshold.

Sample [Ex. 4]: The applicant was approved for a \$200 economic injury loan to assist with income losses to its rental property. In addition, a physical disaster loan for \$23,800 was made. We found the applicant had \$94,000 in net assets. The assets included \$6,800 in cash, \$27,000 in stocks, and \$60,000 (80 percent) equity in a personal residence. The ratio of net assets to the EIDL loan amount was 470 to 1. Using ODA's available asset thresholds, \$93,800 in net assets was identified. The ratio of net assets to EIDL loan amount using ODA figures was 469 to 1.

Examples of Applicants With Available Assets to Offset Their Economic Injury

The \$93,800 in identified net assets was not considered because of the \$750,000 net asset threshold.

Sample [Ex. 4]: The applicant was approved for a \$3,200 economic injury loan to assist with income losses to its rental property. We found the applicant had \$146,000 in net assets. The assets included \$15,600 in cash; \$22,600 in stocks, land valued at \$35,000, \$61,800 (61 percent) equity in rental property, and \$11,000 (9 percent) equity in their personal residence. The ratio of net assets to the EIDL loan amount was 45 to 1. Using ODA's available asset thresholds, \$134,975 (\$146,000 - \$11,000) in net assets were identified. The ratio of net assets to EIDL loan amount using ODA figures was 42 to 1.

None of the net assets were considered because of the \$750,000 net asset threshold.

Sample [Ex. 4]: The applicant was approved for a \$3,000 economic injury loan to assist with rental property income losses. An additional \$13,000 in physical disaster assistance was approved. We found the applicant had \$401,200 in net assets. The assets included \$17,000 in cash, \$8,000 in stocks, \$290,000 (68 percent) equity in rental property, and \$86,200 (51 percent) equity in a personal residence. The ratio of net assets to the EIDL loan amount was 134 to 1. ODA determined the same net assets and the ratio of net assets to the EIDL loan amount were the same.

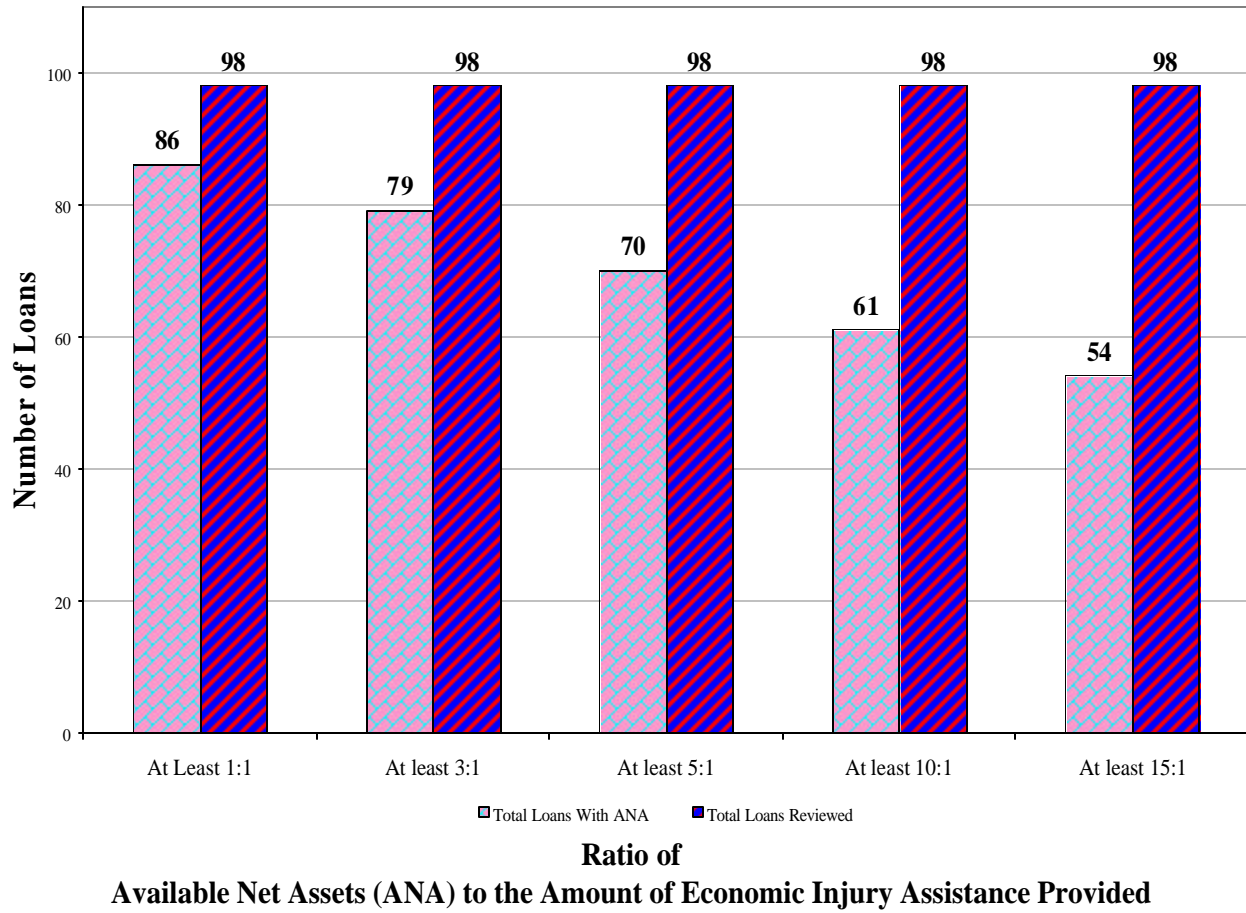
None of the net assets were considered because of the \$750,000 net asset threshold.

Sample [Ex. 4]: The applicant was approved for a \$25,500 economic injury loan to assist with losses to its golf course business. An additional \$23,100 in physical disaster assistance was approved. We found the applicant had \$1,147,900 in net assets. The assets included \$10,000 in cash, \$926,900 (69 percent) equity in the business property, and \$211,000 (70 percent) equity in a personal residence. The ratio of net assets to the EIDL loan amount was 45 to 1. ODA determined the ratio of net assets to the EIDL loan amount was 9 to 1. ODA excluded \$926,900 in net assets when it granted a hardship waiver citing the business property was "a specialized use facility". The waiver reduced the applicant's net assets to \$221,000 an amount less than the \$750,000 threshold that would require the applicant to assist in its recovery from an economic injury.

Examples of Applicants With Available Assets to Offset Their Economic Injury

According to three bankers' explanation of their bank's practices, an applicant's ability to qualify for a loan is based primarily on cash flow or the business' value. Collateral, credit history, and character are also key factors. There is no requirement to have a specified amount of available net assets. Each banker was surprised at the generosity of ODA's \$750,000 (as of October 2001, the each principal's primary residence is excluded from consideration and the threshold was increased to \$1,500,000) available net assets after exclusions threshold that decides an applicant can not obtain credit elsewhere. The use of the available asset test threshold should be explored as it is not based on bank business practices.

EIDLs With A Level of Available Net Assets That Could Have Been Used to Reduce the Need for Economic Injury Assistance



Loans With At Least A 10:1 Ratio of Total Net Assets to Economic Injury Loan Amount

Sample Loans With Available Net Assets at a Ratio of at Least 10:1						
<u>Sample Number</u>	<u>Loan Number</u>	<u>Ratio</u>	<u>EIDL Portion</u>	<u>Net Available Assets</u>	<u>Cash</u>	<u>Total Liquid Assets</u>
		41.65	\$2,000	\$83,300	\$1,000	\$4,500
		53.94	23,000	1,240,597	31,025	223,979
[FOIA Ex. 4]	[FOIA Ex. 4]	78.66	4,700	369,700	1,500	1,500
		232.43	2,100	488,100	6,000	6,000
		18.36	5,000	91,809	1,100	1,100
		16.31	27,400	447,000	1,000	301,000
		47.20	4,500	212,400	1,100	1,100
		72.69	1,600	116,300	9,000	9,000
		12.85	2,000	25,700	2,800	2,800
		187.57	2,000	375,139	8,553	37,864
		469.75	200	93,950	6,750	33,750
		73.24	5,000	366,200	23,500	23,500
		38.05	1,900	72,300	1,800	1,800
		27.69	7,000	193,800	0	0
		17.90	8,100	145,000	25,000	25,000
		166.56	4,800	799,488	86,388	401,388
		13.64	5,000	68,200	8,100	8,100
		69.76	6,000	418,550	2,300	2,300
		16.32	2,800	45,700	3,300	3,300
		27.63	3,800	105,000	0	0
		21.13	1,200	25,350	2,700	2,700
		20.79	9,200	191,300	600	600
		45.62	3,200	145,975	15,600	38,162
		36.67	600	22,000	500	500
		12.82	41,300	529,400	2,200	154,200
		133.73	3,000	401,193	17,000	25,000
		48.80	4,600	224,500	24,000	24,000
		22.12	25,100	555,150	650	650
		17.10	30,900	528,286	67,300	67,300
		15.92	6,500	103,500	6,000	6,000
		25.11	42,200	1,059,450	29,075	29,075
		17.55	3,400	59,686	500	500
		65.50	800	52,400	2,000	2,000
		42.58	5,300	225,678	7,770	7,770
		45.02	25,500	1,147,900	10,000	10,000
		25.31	1,600	40,500	1,500	1,500
		24.97	3,500	87,400	11,000	11,000
		14.36	52,900	759,480	51,000	51,000
		62.40	2,500	156,000	1,000	1,000
		65.62	5,000	328,100	2,100	2,100
		12.48	100,000	1,247,800	63,000	617,700
		117.50	2,600	305,500	80,000	80,000

**Loans With At Least A 10:1 Ratio of Total Net Assets to Economic
Injury Loan Amount**

Sample Loans With Available Net Assets at a Ratio of at Least 10:1 (Cont.)						
Sample Number	Loan Number	Ratio	EIDL Portion	Net Available Assets	Cash	Total Liquid Assets
		75.80	1,000	75,800	10,000	10,000
		19.09	2,200	42,000	12,000	12,000
[FOIA Ex. 4]	[FOIA Ex. 4]	51.25	3,700	189,630	2,300	2,300
		32.13	8,000	257,000	0	0
		103.09	1,100	113,400	20,000	20,000
		57.52	8,500	488,900	18,200	18,200
		13.81	28,600	395,100	1,700	1,700
		29.13	4,000	116,522	922	922
		57.78	9,600	554,714	191,025	243,862
		10.80	5,000	54,000	300	300
		198.17	600	118,900	400	400
		220.35	500	110,175	175	175
		17.44	1,600	27,900	0	0
		44.67	900	40,200	200	200
		197.89	600	118,734	36,900	71,719
		15.36	51,400	789,465	21,765	234,765
		20.71	18,200	377,000	4,000	214,000
		30.64	1,800	55,150	650	650
		19.06	32,900	627,000	50,200	50,200
61			\$670,000	\$18,506,371	\$986,448	\$3,102,131

Date: December 19, 2002

To: Robert G. Seabrooks
Assistant Inspector General for Auditing

From: Associate Administrator
for Disaster Assistance

Subject: Audit of Economic Injury Loans
Draft Report

FINDING 1: Taxpayers Subsidized Economic Injury Disaster Loans Provided to Borrowers with Substantial Assets.

The OIG basis for this finding stems from; (1) their opinion that our current procedures incorrectly deemed borrowers eligible for economic injury by concluding they were unable to obtain credit elsewhere even though they had available net assets of up to \$750,000 and (2) OIG's assumption that if applicants had at least \$10 in available net assets for every \$1 of economic injury assistance provided, then these assets are available to offset economic injury incurred.

We have considered the finding and evaluated its basis. We disagree with Finding 1 and believe the basis for this finding to be too narrow in scope to allow SBA to meet its legislative and congressional mandate to properly administer the Economic Injury Disaster Loan Program. It is our position that SBA procedures for determining the availability of credit elsewhere have been developed over the years to meet the legislative and congressional intent of the Small Business Act and to the extent possible, current SBA credit elsewhere procedures meet that obligation. Moreover, the OIG formula does not consider, nor do we believe it is possible for anyone to construct an absolute formula that would consider, all the required factors to determine a business and its owner/s/ true ability to obtain credit elsewhere without undue hardship.

In support of FINDING 1, the OIG draft report states that "their objective is to determine whether ... Economic Injury Disaster Loans were approved for applicants who had used all reasonably available funds and were unable to obtain credit elsewhere". It is also the OIG's position that borrowers obtained low-interest taxpayer subsidized economic injury disaster loans despite having net assets available to alleviate their economic injury or enable them to obtain credit elsewhere. Again, we believe this conclusion is not supported by the facts and is not consistent with SBA's mission.

More specifically, we refer to the definition of "credit elsewhere" in the Small Business Act to base our eligibility requirements and to express our mission in its proper context. The Act states;

Appendix F

“...For purposes of this Act, the term “credit elsewhere” means the availability of credit from non-Federal sources on reasonable terms and conditions taking into consideration the prevailing rates and terms in the community in or near where the concern transacts business, or the homeowner resides, for similar purposes and periods of time.

Additionally, the House Committee on Small Business, of the Ninety-Eighth Congress, First Session, published a summary report of SBA programs for the Congress in 1983 which speaks to eligibility for economic injury loans. In the House Committee’s letter of transmittal they state; “The Committee on Small Business has for some years published a summary of SBA programs, outlining their principal purposes, terms and eligibility requirements”. Under “Eligibility” for Economic Injury Disaster Loans this report states, “... in the case of economic injury disaster loans, SBA requires personal and/or business assets to be used by the applicant to the greatest extent feasible, without undue hardship, to alleviate the injury incurred.

Clearly, SBA’s mandate to require disaster loan applicants to use personal and/or business assets to the greatest extent feasible, without undue hardship, to alleviate the injury incurred, is consistent with the elaboration of “credit elsewhere” in the Small Business Act as described above. Therefore, in our credit elsewhere determinations, if we are to take into consideration the prevailing rates and terms in the community in or near where the concern transacts business, or the homeowner resides, for similar purposes and periods of time, we must consider both internal and external capabilities of the disaster affected business and its owners to obtain credit elsewhere and ultimately their ability to offset economic injury from a disaster victim’s own resources. The OIG’s (available net assets to economic injury) formula does not meet these requirements.

The SBA procedure for determining whether or not a business disaster victim has credit available elsewhere involves two tests. One test analyzes cash flow to determine cash available for debt servicing. The other measures the applicant’s ability to utilize available net worth (assets) to overcome its disaster loss. These tests also encompass certain affiliates and principals. If either test determines that credit is available elsewhere, that result is controlling. SBA incorporated thresholds in the methodology of both tests. As regards the cash flow test, the threshold is set at a level where a business and its affiliates can reasonably be considered *not* to have sufficient cash flow to continue operations as well as be able to repay additional debt for financing their disaster losses. On the available net worth (assets) test the threshold is placed at a level where a business and its affiliates can reasonably be considered *not* to have sufficient available net worth (assets) to secure outside financing to offset their disaster losses, without undue hardship. SBA recognizes that no formula or procedure will cover all situations and has included a “hardship waiver” provision to apply to situations where the Credit Elsewhere Test (CET) indicates high rate (or ineligibility), but issuing that rate would cause undue financial hardship to the disaster victim. As a matter of policy, hardship waivers must be fully justified in writing and require approval of the Assistant Area Director for Loan Processing or designee.

In addition, SBA will not require disaster victims to dispose of assets to offset economic injury. We do not measure credit elsewhere by what can be sold, but by what the applicant, principals and affiliates can pledge for private sector financing. Some examples of acceptable hardship waivers include, but are not limited to:

- assets which are not readily marketable or liquid,
- assets which are already heavily encumbered,
- assets which are required reserves, and
- assets which are specialized use facilities that have limited marketability and thus minimal value to secure a loan.

Guidance for the identification of available assets

The draft OIG report acknowledges that “SBA has the legal authority to impose exclusions and set thresholds in calculating net available assets,” but states “its (SBA’s) practices result in taxpayers subsidizing economic injury disaster loans to applicants who have significant net assets or are able to obtain credit elsewhere. ODA could not provide evidence to support that the exclusions and threshold amounts were appropriate.”

We disagree with the OIG’s conclusion in the above paragraph. This conclusion appears to be based upon a narrowly defined formula developed by the OIG during this review. The formula appears to assume all “available net assets” of the business are available to offset the economic injury and/or damage caused by the disaster, but does not consider the overall financial condition (debt to asset levels, validity/accuracy of asset values in financial statements, liquidating values which are generally used in commercial credit underwriting as opposed to book or market values, working capital requirements to maintain operations until the business returns to normal, etc.) of the disaster loan applicant and/or their ability to alleviate the economic injury from their own resources, without undue hardship. For example, the formula used in the OIG report to identify available net assets to alleviate economic injury does not consider critically important factors such as:

- Available financing from private sector lenders for similar terms and maturity—which is a consideration required by the Small Business Act. Based on this factor alone it is reasonable to conclude that no credit is available on 72 of the 98 loans listed in this audit report. Our assertion is based on the fact that private sector lenders will only make working capital loans on a term not to exceed 7 years. In many cases, depending on the collateral, the term might be even less but industry standards dictate no more than 7 years. Seventy two of the files reviewed had terms greater than 7 years in order for the loan to amortize without causing undue hardship on the disaster victim. Additionally, most of these loans were companion loans so the extended term was needed to allow reasonable monthly payments for the combined physical and EIDL loans. This means regardless of the available net assets identified in this report, these borrowers generally would not be able to get extended terms beyond the typical 7 year industry standard on working capital loans.
- Many, if not most, conventional lenders are not willing to lend funds unless they are in a first lien position on the collateral securing their loans. In disaster lending, most of the loans we make are secured by 2nd, 3rd and sometimes 4th mortgages. Such loans are not “reasonably available” to most business disaster victims from the private lending sector,

but still may be identified by the OIG formula as having net available assets to offset economic injury.

- The OIG audit included examples of several principal owners of reviewed files and detailed each individual's available net assets. In many of these cases, the audit stated each principal owned a certain dollar amount of stocks and bonds. The draft report does not describe the make-up of these stocks and bonds, which is an important piece of information. Many times, we find the value of stocks in financial statements for small businesses to represent the value of each principal's ownership interest in the applicant business itself. Such stock in privately held companies (small businesses) usually have virtually no borrowing capacity from conventional lenders and in most cases, the value of the company's stock is significantly overstated and has very little market value. Such a consideration would not be given any credibility in the formula used in the OIG's draft report; but it should be a part of the credit elsewhere determination.
- Other examples cited by the OIG describe principals of a disaster affected business as having cash to offset the disaster related economic injury. What the report does not state is the living expenses (i.e. mortgage payments, car payments, etc) for each principal's family. The fact that a principal of the business reports having \$35,000 in cash, doesn't automatically mean that all or a part of the cash is reasonably available to offset the business' economic injury. Consideration of the disaster victim's overall financial position must be given to make an accurate and reasonable determination and that is what this office does.

Updated guidance for the identification of available assets

The draft report states that SBA changed its procedures in October, 2001 for identifying available net assets that applicants could use to obtain credit elsewhere but did not provide justification that the changes to the exclusions and threshold amounts were appropriate.

Utilizing recommendations from the ODA field offices, ODA determined to change the Adjusted Cash Flow Threshold and revised Available Net Assets to Adjusted Net Worth with a new threshold that is more appropriate.

The change to cash flow was to apply a \$100,000 exclusion to cash flow to all sources rather than just to principals' GAI. We found that due to variations in business structures, accounting methods and interrelationships between applicant businesses and their principals or affiliates, the previous structure penalized certain applicants. For example, for principals of a corporation or partnership, we could exclude \$100,000 of the principal's income, but the "principal" of a sole proprietorship was not eligible for the exclusion because it was considered the applicant. This change applies to all sources of income, not just to the principals Gross Adjusted Income.

We also changed the term "Available Assets" to "Available Net Worth." This term is more descriptive of what was actually being measured. We raised the exclusion threshold to \$1.5 million in Adjusted Net Worth from \$750,000 plus \$375,000 for principals. Given the increase

in market value of assets, as well as the levels of liquidity needed for business operations and personal needs, the increase was reasonable. Further, we simplified the Credit Elsewhere Test by adding a preliminary Total Net Worth (assets) comparison prior to the complete Adjusted Net Worth (assets) calculation. This eliminates obvious no-credit-elsewhere applicants without fully analyzing all financial information, thus expediting processing and reducing delay in providing a decision to the borrower.

The new procedures were tested in the field to compare results of the proposed changes with the results on loans that had already been processed under the previous guidelines. The field test of the new guidelines resulted in almost the same number of loans determined to have credit available elsewhere and those not having credit elsewhere.

Identification of available assets by Office of Disaster Assistance

We disagree with the draft report's assertion that the examples in Appendix C represent situations where reasonably available net assets were identified but excluded from consideration. The examples cited in Appendix C are misleading and do not provide meaningful information to support the OIG's finding. These examples also do not present the true picture of our credit elsewhere analysis. For example, in [FOIA Ex. 4] the OIG states the applicant had \$488,100 in available net assets, which included a small cushion of cash (\$6,000), equity in the damaged rental, and equity in their damaged personal residence. This is a family of four living on one salary of \$78,900 and the income from the rental property. The rental property is free and clear and provides gross rents of \$1,100 per month. The EIDL amount was based on Phase 1 processing and allowed for two months of economic injury. However, the damaged rental property was yellow-tagged because of landslide damages and required engineering assessment and repairs. The loan officer presented a hardship waiver based on this fact. Based on the type of damage that the rental property incurred, it is also reasonable to assume that their injury period lasted longer than two months, but the Phase 1 analysis was limited to only two months. Further, it is not reasonable to assume that the applicant could borrow against the damaged rental with landslide damages and engineering concerns and get a reasonable rate or term. Based on our 40% Maximum Acceptable Fixed Debt (MAFD) analysis, the applicants already lived on a breakeven budget, and in order to make this loan, we had to increase the MAFD to 44.7%. This applicant is a classic example of the type of borrower we are referring to who, because of the disaster has limited borrowing ability, has some available net assets, but does not have excess cash flow and is not wealthy.

Using available assets in lieu of disaster assistance

In this section, the OIG draft report states that their analysis found economic injury disaster loan applicants had available net assets that could be used to alleviate their economic injury because SBA gave no consideration to available net assets when approving economic injury loans. We disagree. Through the threshold and hardship waiver provisions in the SBA credit elsewhere test, SBA considered available net assets in every case the OIG reviewed. Current credit

elsewhere provisions and thresholds take into consideration such factors as the nature of the assets and their relative availability to offset economic injury, the reasonableness of cost and term of loans available in the disaster area the applicant does business, available cash in relation to cash flow needs and overall debt service requirements, among other factors. We strongly believe the SBA approach meets the program mandate. Just as strongly, we do not believe the approach suggested by the OIG draft report would meet our program mandate.

Taxpayers subsidized economic injury disaster loans to wealthy applicants

The OIG draft report uses its benchmark of \$10 in available net assets (regardless of the total value of the assets) to \$1 of economic injury assistance (See Appendix E) to characterize Economic Injury Disaster Loan applicants as *wealthy* individuals who received subsidized Economic Injury Loans and who had reasonably available net assets to alleviate their economic injury (See Appendix B). We are concerned that the report singles out small business disaster loan applicants as “wealthy” because of an arbitrary benchmark that does not consider any relationship to the disaster victim’s total financial picture.

An analysis of the 98 loans included in the OIG’s audit reveals a large percentage of these small businesses had net assets of \$100,000 or less, as indicated below:

<u>Net Assets</u>	<u>Number of Borrowers</u>
\$ 100,000 or less	45
\$ 100,001 - 250,000	24
\$ 250,001 - 500,000	14
\$ 500,001 - 750,000	6
\$ 750,001 - 1,000,000	5
\$1,000,001 - 1,247,800	4

It is unfortunate that the OIG draft report contains the inflammatory, and we believe inaccurate, characterization of “wealthy” when referring to disaster victims identified in their report who have received economic injury disaster loans. This term (wealthy) is not supported in fact and the basis for this claim is too limited in scope to identify either true net assets available to alleviate business economic injury or a truly wealthy business or its owners.

SBA Economic Injury Disaster Loan applicants, by definition, are small businesses. The OIG formula proposed in this draft report would require small businesses to unnecessarily liquidate assets that are needed to maintain the businesses viability—especially when forced to deal with the financial hardships of trying to resume normal operations with increased and unplanned disaster debt.

RECOMMENDATIONS:

1. A Define the term available net assets.

The procedures in place in SOP 50 30 04 Appendix 25 already define and provide instructions on how to calculate cash flow and available net worth (assets), which are more relevant. We do not see any value in defining the term available net assets or using the approach suggested in this report to create eligibility for Economic Injury Disaster Loan Applicants. To do so would unreasonably limit the scope of SBA current analysis procedures causing unnecessary and additional financial hardship to disaster affected small businesses.

1. B. Establish a ratio that identifies reasonably available net assets relative to the economic injury loan amount.

As indicated above, establishing a fixed ratio for all disaster loans to establish economic injury loan eligibility is not a reasonable approach. To do so assumes all available net assets of the business are available to offset the effects of a disaster, which is not a reasonable assumption. If we require a business to use all available assets to address the economic injury associated with a disaster, we could very well put some businesses in a position of jeopardizing their relationship with their private sector lenders, by adversely affecting key operating thresholds such as net worth to debt, working capital, and so on or forcing a business to liquidate an asset that is needed to generate income. Consideration of the credit available elsewhere under reasonable conditions and terms must undergo a broader and more complete financial analysis in order to determine if the use of such assets would not cause an undue hardship.

1. C. Use empirical data to determine the appropriateness of using the \$750,000 threshold of total net available assets and the blanket application of the 50 Percent Equity Rule in determining available net assets that could be used to alleviate economic injury or obtain credit elsewhere.

We are not aware of any empirical data that would accurately establish an available net asset threshold that one could use to conclude that the applicant has “credit available elsewhere” or the ability to use their available assets to alleviate the economic injury without undue hardship. As previously mentioned, commercial credit underwriters generally, consider many more factors than just available net assets in making a determination of whether or not to grant a loan. We believe that it is critically important to consider the applicant’s overall financial condition as well. We also believe that the thresholds that we have set are reasonable, given the mission of the program and that small businesses at this level are not generally considered to be wealthy. The rationale for excluding property that is more than 50% encumbered is based on the assumption that it would be very difficult to obtain a loan on reasonable terms and conditions on such property.

While empirical data was not developed, SBA did field test the current procedures to compare results of the proposed changes with the credit elsewhere results on loans that had already been

processed under the previous guidelines. The field test results of the field test credit elsewhere determinations were very similar on both the “before” and “after” processing.

FINDING 2: Questionable Approval of Large Dollar Economic Injury Disaster Loans

[FOIA Ex. 4] (*Applicant 1*)

The OIG Audit of Economic Injury Disaster Loans criticizes our size determination in the case of [FOIA Ex. 4]. We disagree with this criticism, and we believe the OIG’s specific statements about this case are not completely accurate.

The OIG says that “ODA reclassified this applicant from a retail music operation to a wholesale computer and computer peripheral equipment operation without documented support.” This application was never classified as a retail music operation. We did not reclassify the industry of this applicant. The original Loan Officer Report (LOR) determined that the type of business belonged in SIC 5045 (this was a Northridge earthquake application processed by the loan officer on June 21, 1994). SIC 5045 is for businesses engaged in wholesaling computer and computer peripheral equipment. Thus, it is erroneous to say that “ODA reclassified this applicant”

It appears that the processing loan officer may have initially believed that the applicant was a retailer. The loan officer made a chron entry on June 8, 1994 that she spoke with the applicant at his home and that she explained that his business exceeds size standards. She did not explain the basis for this position. We can speculate that she thought the business was a music retailer. The company’s dba is [FOIA Ex. 4]. According to this chron entry, the applicant told the loan officer that “he doesn’t sell standard, traditional musical instruments, its more like electronic, computer assisted instruments.” The loan officer indicated that she would research this more.

That same day, June 8, 1994, the owner of the applicant business faxed a letter to the loan officer. In that letter the owner said that “[FOIA Ex. 4] is in the business of wholesale distribution of computers, related peripheral equipment, and numerous software items used in the film, video, recording, and broadcast industries.”

In the LOR, the loan officer says that the owner “opened a musical instrument store in 1977. He started selling small pianos and organs and other instruments. In 1984, he incorporated his business and also expanded his business by selling computers and computer peripherals to music industry.”

The D&B report on the applicant lists the business with two SIC codes. The first, and primary, SIC code is 5045. The second SIC code listed is 5736, retail musical instrument stores. Thus, D&B classified the primary industry of this business as wholesale computer and computer peripherals.

Based on the information available, the loan officer agreed with the primary SIC assigned by D&B. In this case, the primary SIC shown on the D&B report, 5045, is fully supported by the applicant’s own statements describing the business, and there is no information in the file to contradict that result. Therefore, the loan officer properly accepted that result.

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The OIG's report says that "the initial review of the applicant's operations and historical sales showed that it was not a small business because average sales of \$10 million exceeded the \$3.5 million limit for the stated SIC – retail music operation." Those statements are both inaccurate and misleading. As noted above, there was no previous determination (or "initial review") that the business was a retail music operation. There was no "stated SIC." As described above, it appears that the loan officer initially thought the business might be a retail music operation, but she apparently reached a different conclusion after speaking with the applicant and considering all the information in the file.

The OIG's report says that "following notification that the business did not qualify for disaster assistance, the applicant reported his musical instruments were "more like electronic, computer assisted instruments." In addition, the applicant submitted a revised explanation of his products and clientele. The revised document described the applicant's business operations with language matching the SIC code language describing a wholesale computer and computer peripheral equipment operation. Again, the OIG's presentation is misleading. The OIG is citing the same chron entry documenting a telephone call from the loan officer to the applicant on June 8, 1994 as described above, and the same fax letter of June 8, 1994 from the applicant to the loan officer as described above. SBA never reached a determination that the applicable SIC was 5736 and never notified the applicant to that effect. Instead the loan officer had a telephone call with the applicant during the stage of developing information. Based on that chron, it appears that the loan officer indicated her tentative view that the business wouldn't qualify as small because it exceeded the size standard for retail music stores. Further, it appears that the applicant immediately indicated that the business had transitioned from a musical instrument retailer to a wholesaler of "computers . . . used in the film, video, recording, and broadcast industries." Moreover, this was the first receipt of the applicant's explanation of his products and clientele, not a revised version. The inference that SBA accepted a revision and disregarded an original submission is unfounded.

The OIG's report then says that "with the conforming description, the loan officer changed the SIC code to the classification for wholesale computer peripheral equipment." Again, the statement that the loan officer "changed" the SIC code is not accurate. The initial determination on the original LOR was that the business belongs in SIC 5045. The fact that the loan officer apparently had a preliminary view that the appropriate SIC code might be 5736 is not material. That view never became a conclusion after consideration of all the facts. This is not a semantic distinction, because the OIG's summary finding is that the "initial standard industrial classifications were changed without adequate supporting documentation."

The OIG's report continues, saying that "in addition to the changes in types of products sold, clientele, and the ambiguity in what constitutes computer peripheral equipment, there were other indications that the applicant's primary industry was retail music. The Dun and Bradstreet Report (D&B) for the applicant reported SIC codes for both a wholesale computer and computer peripheral equipment operation and a retail music operation. The written description on the D&B, however, stated the applicant's activities were retail. It further allocated 80 percent of the businesses sales to musical equipment and 20 percent to computer peripheral equipment. Tax returns also showed quarterly sales tax liabilities indicating the business was engaged in retail sales." This statement ignores the fact that D&B reported the primary SIC to be 5045 and reported 5736 as the secondary SIC. The written description was not merely "retail," but "retail comp & comp peripheral equip and software." Thus, the written description appears to be a blend of the two SIC codes listed and doesn't add any clarity. The

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claim that the D&B allocated 80 percent of the businesses sales to musical instruments and 20 percent to computer peripheral equipment is not accurate. Contrary to the OIG's statements, the D&B attributes 80 percent of sales to "computer and computer peripheral equipment and software" and 20 percent of sales to "musical instruments." Thus, the very statement in the D&B report that the OIG finds to be so important does not support the OIG's assertion that "there were other indications that the applicant's primary industry was retail music." They achieve that result only by reversing the statement in the D&B report. In reality, the D&B indicates that the preponderance (80%) of sales is of computer and computer peripheral equipment and software. The statement that tax returns show quarterly sales tax liabilities is meaningless. There is no suggestion that the business isn't engaged in some retail sales and therefore that it has some sales taxes due. Additionally, wholesale sales to the end user would also be subject to sales taxes (see discussion below).

The OIG's report concludes that "these indicators, coupled with the applicant's need for disaster assistance, should have prompted ODA to substantiate the reclassification of primary industry by documenting the percentage of revenues from retail versus wholesale operations." Once again, it is not true that there was a reclassification of primary industry; the original LOR found that the applicable SIC code was 5045. The applicant's "need for disaster assistance" is not relevant; all disaster loan applicants claim a need for disaster assistance.

The real issue in this case is whether the applicant was a retailer or a wholesaler. As either a retailer of musical instruments or of computer and computer peripheral equipment and software, the business would exceed the applicable size standard (\$3.5 million and \$4.5 million, respectively). However, as a wholesaler, the size standard is not revenue based but employee based, and the applicant would qualify as small, regardless of whether the sales were primarily of musical instruments or computers and computer peripheral equipment.

Two key facts available to the loan officer at the time of processing support the conclusion that the applicant was engaged primarily in wholesaling: (1) the primary SIC code on the D&B report, and (2) the applicant's description of his business provided to the loan officer during their initial conversation on this subject and followed up in writing later that same day.

Another key factor indicates that the primary business was wholesaling. The applicant's statement includes the information that his clientele is primarily the "film, video, recording, and broadcast industries." The location of the business makes it more than reasonable that this description of the clientele is accurate. Sales to the "film, video, recording, and broadcast industries" would be properly considered to be wholesale, not retail. Those sales to professionals and other businesses would have been at prices below normal retail levels and would be classified as wholesale. We pointed this out to the OIG's staff, but they didn't address this key fact in their draft report. Additionally, these wholesale customers would have paid sales tax, because they were the end users and were not reselling the goods purchased.

Thus, the loan officer had a D&B report listing the primary SIC code as 5045. She had the applicant's own description of the business as wholesaling. And she had a business location that strongly supports the owner's statement that most sales are to other businesses, making the sales wholesale. Contrary to the OIG's report, it appears that the correct industry classification was SIC code 5045. Had the correct industry been musical instruments wholesaling, SIC 5099, the conclusion would have been the same --

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which the business was small as measured by the appropriate size standard (Gomuco had 35 employees compared to the size standard of 100 employees). There was no reason for the loan officer to have devoted more time to this issue.

- [FOIA Ex. 4] (*Applicant 2*)

The case file makes mention of a meeting in Washington, DC at which [FOIA Ex. 4] presented final arguments to try to persuade the Disaster program to change the Standard Industrial Classification code. Area 2, the processing office, had through two appeals placed [FOIA Ex. 4] in SIC 7372. [FOIA Ex. 4] insisted that it should more accurately be placed in SIC code 7373. There is no documentation by way of transcript or recording of the actual content of the discussions that took place in Washington but according to some of the participants' recollections, [FOIA Ex. 4] presented arguments based upon documents in the case file. [FOIA Ex. 4] then explained the basis for their argument that it should be classified under SIC code 7373. Based upon the totality of the information presented at the meeting and information in the case file and with direction provided by senior disaster staff in attendance, Area 2 reversed its decision. Area 2 determined that [FOIA Ex. 4] should be classified in SIC 7373, Computer Integrated Systems Design.

Area 2 had struggled with the classification of [FOIA Ex. 4] as evidenced by the case file. Area 2's denial of a change in the SIC code from 7372 had followed much the same argument as put forth in the Request for Opinion. Area 2 followed 13 CFR Ch. 1 (1-1-92 Edition) section 121.801, Size Eligibility for SBA Financial Assistance. The question of size was not essential to the conclusion as both SIC codes 7372 and 7373 had a size standard of 7 million dollars. In size determinations where the standard is annual receipts, size eligibility requires that the concern may not exceed the annual receipts in that standard, 13 CFR 121.402(a).

The critical question on appeal was the determination of [FOIA Ex. 4] primary industry not [FOIA Ex. 4]'s size. Section 121.802(b) provides the guidelines for determining primary industry. It states:

"In determining what is the primary industry in which a concern applying for financial assistance is engaged, primary consideration shall be given to the distribution of receipts, employees and costs of doing business among differing industries in which a concern is operating for the most recently completed fiscal year of the concern. Other factors (e.g., patents, contract awards, assets) may be considered."

Section 121.803(c) established the time at which size shall be determined as the time the disaster commenced, as set forth in the Disaster Declaration. This would have been August 24, 1992. Therefore, the data and the discussion considered by the disaster program for determining the size and the primary industry was taken from [FOIA Ex. 4] 1991 financial data, the most recently completed fiscal year of the concern prior to the time the disaster commenced.

On appeal the disaster program did not consider information after 1991 for the primary industry classification. The primary consideration was not limited to receipts but included employees,

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cost of doing business and other factors. It was these factors that were primarily discussed by [FOIA Ex. 4] in their appeal.

[FOIA Ex. 4] argued persuasively that it developed computer software based upon Hollywood movies; that it marketed purchased computer hardware with its computer software in it; and that it was involved in all phases of systems development from design through installation in the new product that it was developing.

Applying the above interpretation of the regulations, the disaster program gave consideration to receipts, employees and cost of doing business and other factors. Certainly the major receipts generated by [FOIA Ex. 4] were from the sale of software. However, [FOIA Ex. 4] asserted that they had employees who were working on the development of the [FOIA Ex. 4] computer. [FOIA Ex. 4] stated in the appeal discussion that they brought out a bundled computer device for which patents were pending. As this was a product unique to [FOIA Ex. 4] and developed by [FOIA Ex. 4], they were involved in all phases of system's development from design through installation. The industry magazine article in the case file supported each individual requirement of the industry identification and the disaster program accepted [FOIA Ex. 4] argument that it should be classified as 7373 since the regulations as interpreted required consideration of more than receipts.

The Disaster program determined that [FOIA Ex. 4] was a major source of employment under SIC code 7373. As the Area office repeatedly found, [FOIA Ex. 4] was not a major source of employment under SIC code 7372. The number of employees in the disaster area in the industry 7373 was far fewer (352) than the number of employees in the disaster area in industry 7372 (845). Once the Disaster program determined the appropriate primary industry as 7373, Intracorp had enough employees (46) to meet the MSE criteria of 10% or more of the work force in an industry within the Disaster Area (13 CFR 123.3 Definitions. Major Source of Employment: (b)).

Concerning [FOIA Ex. 4], there certainly could have been questions asked. There should have been questions concerning its status as an independent entity had that fact been recognized. In the magazine article in the file, the president of [FOIA Ex. 4] was the same person as was president of [FOIA Ex. 4]. In the Washington, DC appeal meeting, [FOIA Ex. 4] spoke of [FOIA Ex. 4] computer as though it was a product of [FOIA Ex. 4]. I have no record of the discussion. Whether members of the meeting accepted the information at face value and concluded that [FOIA Ex. 4] developed the [FOIA Ex. 4] computer or investigated the relationship of [FOIA Ex. 4] to [FOIA Ex. 4], I cannot answer. Certainly the program relied on the facts concerning the [FOIA Ex. 4] computer to place [FOIA Ex. 4] in SIC code 7373.

RECOMMENDATION

2.A Establish a standard operating procedure that requires primary industry determinations be documented when an applicant receives at least \$1 million, engages in more than one industry, and /or changes the originally identified standard industrial classification. The determination should show the element of measurement and its distribution between industry classes.

SBA Response:

SBA procedures are already in place in SOP 50-30-4, Chapter 11, paragraph 117, where Economic Injury Disaster Loans, Policies and eligibility are discussed. More specifically, this paragraph requires the loan officer to consider and document three basic eligibility determinations on all EIDL applications. They are: Location, business activity, and size. Additionally, the current version of the automated Loan Officer Report for EIDL processing contains a form to document the size determination analysis.

A handwritten signature in black ink, appearing to read "Herbert L. Mitchell". The signature is written in a cursive style with a large initial "H" and "M".

Herbert L. Mitchell

SBA
Source: Advocacy Office

Adv website
1/2/04

Table 1.1 Profile of the Characteristics of Non-Business and Business Owning Families, 1989-1998

Family Characteristic	Non-Business Owning Families				Business Owning Families			
	1989 (%)	1992 (%)	1995 (%)	1998 (%)	1989 (%)	1992 (%)	1995 (%)	1998 (%)
<i>Age of household head</i>								
Less than 35	28.9	26.9	25.7	24.6	21.8	19.1	18.6	14.4
35-44	20.1	21.3	22.0	22.5	31.6	30.8	29.8	28.7
45-54	14.3	15.7	16.8	17.8	20.4	20.0	25.1	28.9
55-64	13.8	12.6	12.3	12.4	14.0	17.6	13.6	16.1
65-74	13.2	13.3	12.5	11.5	8.9	9.1	9.0	9.4
75 and over	9.6	10.2	10.7	11.3	3.4	3.4	3.8	2.4
<i>Race of household head</i>								
White	73.0	73.5	75.8	76.2	86.9	86.1	89.3	89.1
Black	13.9	14.0	14.1	12.7	5.3	4.7	3.9	5.1
Hispanic	8.8	8.1	6.0	7.8	2.8	3.4	3.5	2.3
Other	4.4	4.3	4.1	3.2	4.9	5.8	3.3	3.5
<i>Gender of household head</i>								
Male	69.0	69.0	68.4	69.2	90.3	91.1	90.0	92.4
Female	31.0	31.0	31.6	30.8	9.7	8.9	10.0	7.6
<i>Education of household head</i>								
No high school diploma	26.0	22.6	19.9	17.7	13.9	7.2	8.6	7.0
High school diploma only	32.8	31.1	32.6	33.2	27.8	23.8	25.3	22.4
Some college	15.4	17.8	19.0	18.1	16.9	17.4	19.5	21.7
College degree or more	25.8	28.4	28.5	31.1	41.4	51.6	46.6	48.9
<i>Income of household (dollars)</i>								
Less than 10,000	16.7	16.4	16.5	13.8	2.6	2.9	5.3	4.5
10,000-24,999	25.3	29.2	26.8	26.4	14.8	16.9	14.3	10.8
25,000-49,999	30.9	30.0	31.3	29.6	26.3	26.7	28.1	26.4
50,000-99,999	21.4	19.2	19.9	23.8	31.3	30.0	31.0	33.0
100,000 or more	5.8	5.2	5.5	6.4	25.1	23.4	21.3	25.3
<i>Net worth of household (dollars)</i>								
Less than 50,000	50.9	53.1	50.5	47.4	15.7	16.9	14.0	14.6
50,000-99,999	14.9	15.3	16.6	14.7	9.2	10.7	13.7	10.7
100,000-249,999	20.3	20.7	20.0	20.4	23.2	27.5	30.8	21.1
250,000-499,999	9.0	6.9	7.6	11.1	17.9	15.7	13.8	20.3
500,000-999,999	3.2	2.5	3.8	4.0	15.1	14.1	13.0	15.9
1,000,000-2,499,999	1.2	1.1	1.2	1.8	12.0	9.6	8.3	9.1
2,500,000-4,999,999	0.3	0.3	0.2	0.4	4.0	3.5	3.2	4.7
5,000,000-9,999,999	0.0	0.0	0.1	0.1	2.1	1.5	2.0	2.4
10,000,000 or more	0.0	0.0	0.0	0.0	0.9	0.6	1.1	1.2

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