



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

ADVISORY MEMORANDUM REPORT
ISSUE DATE: April 24, 2003
REPORT NUMBER: 3-25

To: Terri L Denison, District Director
Georgia District Office

From: Robert Seabrooks, Assistant Inspector General
For Auditing [FOIA Ex. 6]

Subject: Memorandum Audit Report - Defaulted loan made to
[FOIA Ex. 4]

The purpose of this advisory report is to present the results of our audit of a Section 7(a) guaranteed loan that defaulted within 18 months of its approval date. The loan was made by Washington Mutual, FA (lender) (formerly known as Bank United, Inc.) to [FOIA Ex. 4] (borrower).

BACKGROUND

On March 16, 2001, SBA loan number PLP [FOIA Ex. 4] was approved in the amount of \$800,000 to the borrower. The purpose of the loan was to provide \$780,000 for the purchase of an existing grocery store in Atlanta, Georgia, and \$20,000 of working capital. The loan was transferred to liquidation status in November 2002 with a principal balance of \$782,848. The business real estate was sold in March 2003 for about \$619,000 after expenses.

AUDIT OBJECTIVE AND SCOPE

The audit objective was to determine if the early loan default was caused by lender or borrower non-compliance with SBA requirements. SBA and lender loan files were reviewed and district office personnel were interviewed. The loan was judgmentally selected for review as part of the Office of Inspector General's ongoing program to audit SBA loans charged off or transferred to liquidation within 24 months of origination (early default). The audit was accomplished during March and April 2003 in accordance with generally accepted Government Auditing Standards.

RESULTS OF THE AUDIT

Our audit did not identify material noncompliances by the borrower or lender. We determined that the loan was substantially originated, closed, and liquidated in compliance with SBA rules and regulations.

cc: Associate Administrator for Financial Assistance
Associate Administrator for Field Operations
Office of Chief Financial Officers
Attn: Jeff Brown