

U.S. Small Business Administration

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# Office of Inspector General

Auditing Division

## CANCELLATION OF APPROVED DISASTER LOANS TO INDIVIDUALS AND BUSINESSES IMPACTED BY THE GULF COAST HURRICANES

Audit Report No. 7-30

September 7, 2007



**CANCELLATION OF APPROVED DISASTER  
LOANS TO INDIVIDUALS AND BUSINESSES  
IMPACTED BY THE GULF COAST  
HURRICANES**

*Report Number: 07-30*

*Date Issued: September 7, 2007*

Prepared by the  
Office of Inspector General  
U. S. Small Business Administration



U.S. Small Business Administration  
Office Inspector General

# Memorandum

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

Date: September 7, 2007

From: Debra S. Ritt  
Assistant Inspector General for Auditing

Subject: Report on the Cancellation of Approved Disaster Loans to Individuals and Businesses Impacted by the Gulf Coast Hurricanes  
Report No. 07-

This report summarizes the results of our audit of approved disaster assistance loans to victims of the Gulf Coast Hurricanes that were canceled by the Small Business Administration's (SBA) Buffalo, NY office. We initiated the audit in response to complaints by two former SBA employees that the Agency unnecessarily canceled approved loans to meet production standards. They also alleged that SBA was non-responsive to many applicants who had their applications withdrawn, which is being addressed in a separate report.

In calendar year (CY) 2006, SBA canceled 40,287 disaster loans. Approximately 11,893 of these loans were canceled by SBA's Buffalo Customer Service Center during the first two weeks of September 2006. Consequently, we focused our audit on loan cancellations made by the Buffalo office. Our audit objectives were to determine whether borrowers: (1) were contacted before their loans were canceled; (2) had their loans canceled against their wishes; and (3) were adversely impacted by the cancellations.

To address the audit objectives, we reviewed entries in SBA's Disaster Credit Management System (DCMS) and interviewed SBA officials at the Buffalo Center to determine whether the Agency canceled loans before notifying the borrowers. We also determined the reasons why loans were canceled and identified the parties responsible for directing the loan cancellations. We attempted to contact borrowers associated with 77 loans that we sampled from the 11,893 canceled loans. We reached 60 of these borrowers and obtained their perspective on the loan cancellations, including their interest in reinstating their loans. We also interviewed 6 borrowers who were outside of the statistical sample. Additionally, we interviewed loan processing personnel at SBA's Fort. Worth Disaster Loan

Processing Center to determine how reinstatements were processed. Finally, we discussed with the borrowers how the loan cancellations impacted them and determined whether borrowers could still be considered for a Federal Emergency Management Agency (FEMA) grant.

We conducted the audit from March to July 2007 in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States.

## **BACKGROUND**

The 2005 Gulf Coast hurricanes resulted in SBA awarding an unprecedented number of disaster assistance loans. As of September 30, 2006, SBA had approved more than 158,000 disaster loans totaling about \$10.6 billion, but had only disbursed \$3.1 billion, or 30 percent of the loans.

In the fall of 2006 the Agency launched a *90-in-45 Campaign* to resolve within 45 days a backlog of more than 90,000 loans approved for Hurricanes Katrina, Rita, and Wilma. A key objective of the campaign was to accelerate contact with all recipients of approved, undisbursed, and inactive disaster loan files. Several SBA employees involved in this initiative complained that, to meet performance goals, SBA disbursed funds against borrowers' wishes, circumvented loan processing requirements, and unnecessarily canceled approved loans. In April and May 2007 the OIG issued reports on the first two complaints.<sup>1</sup>

In September 2006, SBA's Fort Worth Processing and Disbursement Center forwarded to the Buffalo Center 33,000 approved but undisbursed loans for which it had not received loan closing documents. The Buffalo staff were directed to call borrowers to determine whether their loans could be closed or canceled. This effort was referred to as the Triage Project.

According to SBA's procedures,<sup>2</sup> cancellations can be initiated at the verbal or written request of the borrower. SBA may also initiate cancellation if the borrower: (1) fails to complete and return all loan closing documents by the deadline; (2) does not satisfy all terms and conditions of the loan agreement; (3) experiences a substantial adverse change in his/her financial condition; (4) does not qualify for full disbursement during the original disbursement period; or (5) fails to request or receive approval for an extension. Before the Agency

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<sup>1</sup> *Audit of Borrower Acceptance of Disbursements*, Report No. 7-20, April 17, 2007, and *Securing Collateral for Disaster Loan Disbursements*, Report No. 7-22, May 9, 2007.

<sup>2</sup> Standard Operating Procedure 50 30 (5) Chapter 10, *Loan Servicing, Cancellation, Reinstatement, and Loan Modification*.

initiates action to cancel loan funds, SBA procedures require that a letter be sent to the borrower giving him/her 14 calendar-days notice of the pending cancellation. The letter must specify the action the borrower can take to prevent his/her loan from being canceled.

## **RESULTS IN BRIEF**

As part of an effort to eliminate a backlog of approved undisbursed disaster assistance loans, SBA canceled 11,893 loans during a 2-week period in September 2006. Nearly 8,000 (7,752) of these loans were canceled without sending borrowers the required 14-day letter notifying them of the pending cancellation and without contacting them by phone. SBA's Customer Service Center in Buffalo canceled the loans, in most cases, after making only one attempt to contact borrowers, instead of the three attempts they were instructed to make by SBA's Fort Worth Processing and Disbursement Center. When borrowers could not be reached, their loans were canceled without advance notice and SBA's records were incorrectly annotated to show that the borrowers requested the cancellations. The incorrect entries were caused by limitations in how entries could be coded in DCMS. SBA then sent the borrowers cancellation notices after their loans were canceled, in some cases, stating that the borrowers directed SBA to cancel their loans.

After the initial cancellations, SBA made another attempt in October 2006 to contact the 7,752 borrowers who had not previously been reached. Callers successfully contacted 4,569 borrowers, of which 1,195 requested that their loans be reinstated. Through discussions with a sample of individuals whose loans were canceled, we learned that some borrowers felt that SBA was forcing the cancellations upon them even though they still needed the loans.

Further, although borrowers were later notified that their loans could be reinstated, reinstatement could not occur unless the borrowers could produce all of the documents required for loan closing, and either show that SBA's cancellation action was in error or provide justification why SBA should reinstate the funds. This was problematic for some borrowers because they did not, and still do not, have all of the needed closing documents, were relocating and did not have mortgages on the new property, or were waiting for infrastructure to be restored to areas where they planned to rebuild their homes and businesses.

The audit disclosed that canceling the loans placed borrowers in the position of having to request a loan reinstatement or forgo proceeds that would aid in disaster recovery. For example, borrowers seeking reinstatement of their loans were required do so within 6 months of their loan cancellation. However, individuals may not have been able to produce the documents needed to close by the 6-month

deadline; and therefore, were faced with forgoing the loan proceeds because SBA procedures prevented them from reapplying after the reinstatement period.

Further, we identified borrowers that received loans even though they lacked repayment ability and should have been referred for a FEMA grant. These individuals subsequently had their loans canceled, but because they were approved for an SBA loan, could not apply for FEMA assistance. Consequently, these individuals received neither SBA loans nor FEMA grants. Unless SBA takes action to refer these borrowers to FEMA, they will be precluded from receiving all of the Federal financial assistance to which they may be entitled.

## **RESULTS**

### **SBA Terminated 7,752 Loans without Notifying Borrowers in Advance**

During the first 2 weeks of September 2006, the Buffalo Center canceled 11,893 loans, of which 7,752 were canceled without notifying the borrowers in advance or contacting them by phone. The majority of the borrowers whose loans were canceled were homeowners and renters who planned to use the loans to rebuild their homes and replace personal property that was destroyed by the hurricanes. Canceling the loans placed borrowers in the position of having to request a loan reinstatement or forgo proceeds that would aid in disaster recovery. SBA then sent the borrowers cancellation notices, in some cases, erroneously stating that the borrower had requested the cancellation.

Buffalo Center staff received instructions from the Fort Worth Processing and Disbursement Center to make 3 attempts within 24 hours to call each borrower, and if they could not reach the borrower, to cancel the loan. According to the Director of the Fort Worth Center, these instructions were intended to get the loans resolved and off of SBA's books. The Director of the Buffalo Center also told OIG auditors that canceling the loans was a way to resolve the portfolio backlog. The audit disclosed that in most cases only one attempt was made by the Buffalo staff to reach the borrowers before canceling their loans. In some cases when a borrower could not be contacted, SBA erroneously annotated DCMS to show that the borrower had requested the cancellation. We were told that this annotation was necessary, even though Buffalo staff realized it was incorrect, as there were limitations in DCMS as to how the status of the loans could be coded.

The audit also disclosed that prior to canceling the loans, SBA did not send letters to any of the borrowers alerting them to the pending cancellations or to action(s) they could take to prevent their loans from being canceled, even though SBA

procedures require that borrowers be notified in writing 14 days in advance of the cancellation.<sup>3</sup>

### **At Least 1,195 Borrowers Wanted To Keep Their Loans and Some Reported that SBA Forced the Cancellation Decision on Them**

Several weeks after the loan cancellations were processed, in October 2006, the staff of the Buffalo Center attempted to contact the 7,752 borrowers that callers previously had been unable to reach to determine if they wanted their loans reinstated. The callers reached 4,569 borrowers, of which 1,195 requested their loans be reinstated.

To get their personal accounts of the loan cancellations, we interviewed 66 borrowers, including 6 borrowers outside of the statistical sample. Of the individuals we contacted, 2 individuals were not ready for their loans and agreed to the cancellations, and 52 no longer wanted their loans. However, 12 borrowers reported they wanted their loans, and in some cases, had written SBA to request an extension of the loan closing deadline. Several of the individuals also told us they were upset their loans had been canceled and felt that SBA was pushing the loan cancellation on them. Some individuals who agreed to the cancellation were also not given adequate time to produce loan closing documents to prevent their loans from being canceled or were pressured into making on-the-spot decisions. For example:

- One borrower, who was caring for her invalid mother, needed her loan to find a replacement home, but could not look for property because she did not have anyone to care for her mother. She sent SBA three letters to request an extension of her loan closing deadline. Despite these written requests, SBA canceled her loan and informed the borrower that she would have 6 months to request a reinstatement. The borrower told us that she believed she had no other choice than to cancel her loan. She reported that when she finally received her cancellation letter, she was distressed to see that it indicated the loan had been canceled at her request.
- A husband and wife, who were still living in a FEMA trailer, had their loan canceled because SBA was waiting for flood insurance documents to close their loan. However, the couple told us that they had already submitted the flood documents at the time the wife was contacted about the cancellation. The wife indicated that she was pressured by SBA to cancel the loan against her wishes. The husband told us that SBA should not have pressured his wife into canceling and that he had provided all of the documents required to close the loan. He also sent SBA a letter requesting

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<sup>3</sup> SOP 50 30 (5), Chapter 10.

reinstatement stating that, "...the loan was never supposed to be canceled at any time."

- One borrower told us she was called one morning by SBA and given until noon of that day to produce loan closing documents or her loan would be canceled. Since the borrower could not possibly produce the documents by noon, she agreed to have her loan canceled, even though she still wanted the loan.
- Another borrower, who was living in a FEMA trailer, had previously told SBA that she still wanted her approved loan. In September 2006, when SBA could not reach the borrower after one attempt, her loan was canceled. According to a DCMS entry, SBA contacted the borrower in October 2006 while she was in the middle of a meeting with a funeral director making arrangements for her mother's funeral. At that time SBA told the borrower she had 24 hours to decide whether she wanted her loan reinstated.
- One borrower had notified SBA that she was having trouble getting flood insurance, but she had been in constant communication with SBA officials, as evidenced by DCMS entries, to let them know that she was still interested in the loan. Although her requests were noted in DCMS, her loan was still canceled. The borrower immediately requested reinstatement of her loan upon learning that it had been canceled. The borrower expressed frustration to us about the turnover in SBA personnel, which made her feel like she was starting the process all over again each time she spoke with someone new from SBA. She stated that "every time she thought the process was on a roll, a new person took over and knocked her a few steps back in the process."

A full summary of comments made by the borrowers that we contacted is contained in Appendix I.

Because many of the SBA employees who called borrowers regarding the loan cancellations have since left the Agency, we were unable to get all of the callers' perspectives on the contacts made. However, we interviewed the Director of the Buffalo Center and some of the SBA employees who had originally called the borrowers. They confirmed that they were instructed to contact the borrowers within a 24-hour period and to cancel the loans if the borrowers could not be reached. Buffalo staff we interviewed believed they were doing the borrowers a favor by canceling their loans because the borrowers had exceeded SBA's 120-day deadline for submitting loan closing documents, and if they canceled their loans they would be given another 6 months to request loan reinstatement.



Buffalo staff explained that borrowers are normally allowed 60 days to submit loan closing documents, but extensions to 120 days ultimately had been granted because the Agency realized recovery efforts would be slow given the scope of damages wrought by the Gulf Coast Hurricanes. When loans were canceled borrowers were given an additional 6 months beyond the 120-day period to submit loan closing documents needed for reinstatement. Thus, the Agency was attempting to provide borrowers significantly more time to close their loans than they normally would have been given. However, given the enormity of the devastation caused by the Gulf Coast Hurricanes, we question whether even the additional 6 months for reinstatement constituted adequate time for borrowers to obtain the documents they needed to close their loans.

### **Borrowers Requesting Reinstatement Were Required to Justify Reinstatement and Be Ready for Loan Closing**

After the loan cancellations were processed, SBA provided written notification to borrowers of the actions needed to get their loans reinstated. To request reinstatement, borrowers were told they had to submit a written request within 6 months of the date of the cancellation and show that SBA's cancellation action was in error or provide justification for why SBA should reinstate the funds. Borrowers were also required to submit all loan closing documents with their request. Consequently, if borrowers could not demonstrate that the cancellation was in error or did not have all of the required documents for loan closing, they could not get their loans reinstated.

Loan closing requirements vary based on the size and type of loan. Generally, SBA requires a loan authorization agreement, loan note, assignment of insurance proceeds, proof of hazard and/or flood insurance, and the deed to the damaged property. Borrowers who relocate must also submit a copy of the deed for the new property. According to the Counsel of the Fort Worth Processing and Disbursement Center, 90 percent of the time SBA cannot get a complete closing package from borrowers.

Borrowers we contacted also told us they were not ready to close on their loans because they either had not received documents that SBA was supposed to send them or they were having difficulty getting the documents they needed for loan closing. For example, one individual we interviewed could not request reinstatement because SBA had never sent him the legal documents he needed to sign and notarize for his closing package. Another individual, who was relocating, could not get reinstated because he had not located a new property and, therefore, did not have title to a new property to close the loan. In another example, an individual could not get the building permits he needed.

Others told us that they were not ready to close on their loans because the areas in which they wanted to rebuild still lacked the essential infrastructure. For example, one borrower told us he had been requesting extensions on his loan closing until the city completed rebuilding a bridge, which would allow access to his property. Therefore, he did not know when he would be able to close on his loan. This was of particular concern, because if the loan is not reinstated within 6 months from loan cancellation, the borrower cannot reapply for the loan because the application deadline has passed even though he/she may need the assistance.

Given that loan closings for many borrowers will be impacted by the speed with which infrastructure in the some of the devastated areas is restored, SBA will need to reconsider whether normal restrictions on the timing of loan closings should be lifted. While victims of other disasters may have been able to meet the Agency's loan closing deadlines, such deadlines may not be reasonable for victims of Hurricane Karina and the other Gulf Coast Hurricanes given the scope of devastation wrought by these disasters. Consequently, SBA should act in the best interest of the borrowers and reconsider whether further extensions of the reinstatement period are appropriate.

### **Some Borrowers Lacked Repayment and Should Have Received Other Federal Disaster Assistance**

Our audit identified four borrowers who lacked repayment ability, but were approved for an SBA loan under expedited loan procedures. These individuals subsequently had their loans canceled by SBA because loan closings had not occurred. We determined that these borrowers should have been referred to FEMA for an Individual and Households Program (IHP) grant. However, to be eligible for the grant, they must first have been denied an SBA disaster loan. Since these individuals were initially approved for an SBA loan, they are automatically removed from consideration from future eligibility for a FEMA grant.

For example, one borrower, who was caring for a disabled husband, lacked repayment ability and should not have been approved for a loan. She agreed to cancel her loan because she was unable to afford the payments. Consequently, she did not receive an SBA loan and was inappropriately precluded from other Federal financial assistance to which she may have been entitled.

We discussed this issue with FEMA officials who indicated that such individuals can still apply for FEMA assistance. However, SBA would have to make the appropriate referrals to FEMA. Borrowers would also have to be notified of their eligibility for FEMA assistance.

## **RECOMMENDATIONS**

We recommend that the Associate Administrator for Disaster Assistance:

1. Reconsider the Agency's loan policy on the reinstatement deadline for the 6,557 canceled Gulf Coast hurricane loans that were not reinstated (7,752 loans canceled less the 1,195 that were reinstated) and notify the borrowers that extensions may be granted for reinstatement, as appropriate.
2. Review the four canceled loans identified in our report that should have been declined, and if appropriate, refer these borrowers to FEMA for grant assistance, and notify the borrowers.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

On July 24, 2007, we provided SBA with a draft of the report for comment. On August 28, 2007, SBA submitted its formal response, which is contained in its entirety in Appendix II. SBA generally concurred with the audit findings and recommendations, but commented on several issues raised in the report.

### **Comment 1**

SBA believes that the report fails to recognize that many borrowers had not provided SBA with new contact information, making it impossible to reach them. Consequently, the report gives the impression that minimal effort was made to contact applicants so that loans could be quickly canceled when, in fact, thousands of loans had invalid contact information. SBA states that because it anticipated that many applicants would be unreachable, project team members were instructed to use alternative resources to obtain information on how to reach the borrowers. Additionally, SBA is concerned about the report statement that, "Approximately 7,752 of these loans were canceled without notifying borrowers in advance or contacting them by phone." SBA believes this statement is misleading as it gives the reader the impression that no effort was made to contact applicants when the Agency made attempts to reach the applicants in two separate campaigns, left messages whenever possible and allowed canceled loans to be reinstated. While the campaign did not follow the Agency's normal practice of sending a 14-day letter, SBA believes it went beyond steps it normally would have taken to initiate contact with the borrowers.

## **OIG Response**

We agree with SBA's assertion that many individuals were difficult to reach and that it would have been impossible to reach all borrowers. However, in most cases, SBA made only one attempt to contact each applicant in each of the two project phases. We believe the report appropriately questions the reasonableness of SBA's actions in canceling approved loans without giving borrowers advance notice. If, as SBA states in its response, it anticipated it would be unable to contact many borrowers by phone because their contact information was not current, the prudent course of action would have been to notify borrowers by letter that their loans would be canceled in 14 days as was SBA's customary practice. Instead, SBA did not send the required 14-day letter to individuals it had been unable to contact. Therefore, we do not agree with SBA's characterization of its actions as going beyond what it normally would have done.

Further, we believe SBA's inference that loans could simply be reinstated with only a signed loan authorization and note is misleading. For applicants planning to relocate, a purchase contract for the new property is required in order to have a loan reinstated. Many Gulf Coast Hurricane applicants have not purchased new property as even 300 days is simply not enough time to begin the rebuilding process.

We also stand by the report statement that 7,752 loans were canceled without notifying borrowers in advance or contacting them by phone. This is a true statement. It is not misleading because the report also acknowledges that two separate attempts were made to contact all applicants whose loans had been canceled. Immediately after the statement in question, the report states that the loans were canceled in most cases after making only one attempt to contact the borrower instead of the three attempts they were instructed to make and that a second attempt to contact the 7,752 applicants was made in October 2006. It is our opinion that the report was fair in that it immediately addressed the second attempt to contact borrowers.

## **Comment 2**

SBA believes that the report fails to recognize that an automatic extension was granted for applicants whose loan closing documents were issued within the previous 120 days. SBA extended the deadline for 4,233 applicants who had loan closing documents issued within the 120 days and had not been contacted during the campaign.

## **OIG Response**

The concern that we did not address SBA's automatic extension of the loan closing deadline is unfounded. The report clearly states on page 7 that "Buffalo staff explained that borrowers are normally allowed 60 days to submit loan closing documents, but extensions to 120 days ultimately had been granted because the Agency realized recovery efforts would be slow given the scope of damages wrought by Gulf Coast Hurricanes".

## **Comment 3**

SBA believes the report erroneously implies that applicants were adversely affected by SBA's temporary database annotations that loan cancellations were initiated at the request of the applicant. SBA states that the system could not be adapted quickly enough to provide a new field for callers to show that the applicant could not be reached. However, the annotation "borrower requested cancellation" was strictly for internal workflow purposes and had no impact on the applicant's application, the outcome of the loan, or the permanent file. When the loan modification was processed, the file was annotated with the appropriate justification.

## **OIG Response**

SBA's assertion that the report misleads readers into believing that applicants were harmed by SBA's temporary annotations is unfounded as no such statement or inference is made in the report. Rather, the report merely states that there were limitations in SBA's database (DCMS) as to how loans could be coded, which led to the annotation that borrowers requested cancellation. This statement was made to inform the reader that the annotations were made due to limitations of the database and not because the Agency was trying to conceal its initiation of the cancellations. While not addressed in the report, we do believe there were customer service implications resulting from the incorrect annotations. Some applicants were sent notices after their loans were canceled erroneously informing them that the cancellations were made at their request. For example, one individual we spoke with reported that when she finally received her cancellation letter, she was distressed to see that it indicated the loan had been canceled at her request.

## **Comment 4**

SBA was also concerned that the report suggested it was very difficult to get loans reinstated. SBA acknowledged that the standard language in the packages mailed to applicants required the applicant to return all of the loan closing documents. However, the Agency stated that it took a proactive approach with these applicants

to contact them and explain that they only needed to return the note and loan authorization to have their loans reinstated.

### **OIG Response**

We found no evidence to support SBA's statement that it took a proactive approach to contact applicants seeking to have their loans reinstated or to notify applicants that only the loan note and authorization are needed for reinstatement. The documents sent to applicants instructs applicants to return *all* of the loan closing documents and does not indicate that only the note and loan authorization is required. One applicant, mentioned in the report, requested reinstatement and was turned down because she did not have a purchase contract for her relocation property yet. The applicant explained that she was taking care of her mother and living with her daughter and could not yet afford to look for a home every day in the area she wanted to relocate to. Her file included a signed loan authorization and a signed note, but she was denied reinstatement.

### **Comment 5**

SBA expressed concern that the report did not comment on the outcome of interviews with Buffalo call campaign staff. SBA believes that, in the interest of fairness, the report should contain a summary of these interviews in the context of conclusions of the audit, and that a comment on whether there is any evidence or indication that the CSC "pressured" applicants into canceling loans.

### **OIG Response**

While our interviews with Buffalo staff were very positive, the perception of the Buffalo staff about whether borrowers were pressured into canceling their loans was very different from that of the borrowers we interviewed. Employees stated that they did not pressure applicants into canceling loans, and the majority believed it was to the borrower's benefit to cancel his/her loan. However, there were several borrowers who did feel pressured to cancel their loans, and who told us they were given no other alternative.

Regardless of those differences, the problems highlighted in the report resulted from the directions given to the Buffalo staff by the Fort Worth Center and ultimately ODA headquarters staff. Thus, the work climate of the Buffalo Center would have little relevance on the subject matter. Our purpose in interviewing the Buffalo staff was to determine the reason(s) for canceling the loans, to obtain information about the direction the staff received in how they were to handle the calls, and to determine whether any production goals were communicated to the staff for the project.

### **Additional Comment**

In SBA's general observations about the report, it states that the report suggests the Agency canceled approved loans in order to meet production standards. SBA believes this is absolutely false, and asserts that callers did not have production standards or goals for the Triage Project. Further, no one at the Buffalo Center was promised or given an award based on the number of loans they canceled, and employees were not given incentives to cancel loans.

### **OIG Response**

We disagree that callers did not have production standards or goals for the Triage Project. The guidance given to the Buffalo Center prior to implementation of the project stated that each caller is expected to contact between 40 and 60 borrowers per 10-hour shift. Additionally, it states that callers will receive a list of borrowers to call daily. Every loan on the list must be resolved within 24 hours. The list assigned must be returned to the project coordinator within 24 hours of assignment. We believe the expectation that 40 to 60 borrowers would be called per 10-hour shift and that each loan would be resolved within 24 hours constitutes production standards or goals. These goals were formally communicated in written instructions provided the Buffalo staff.

We agree that SBA did not give employees awards for meeting these goals. Nevertheless, the production expectation was the reason why Buffalo staff cancelled loans when borrowers could not be contacted. In fact, interviews with Buffalo Center staff confirmed that their cancellation actions were driven by the instructions received from the Fort Worth Center. We also learned that callers at the Center interpreted the instructions differently and cancelled some loans without making three attempts within the 24-hour period in an effort to return the list of borrowers they were to contact to the project coordinator within 24 hours, as required.

### **Recommendation 1**

SBA agreed with the recommendation and stated that it has already requested the Buffalo Center to follow-up with the 7,752 applicants whose loans were canceled during phase II of the Triage Project. The center is also continuing to attempt contact with the 3,187 applicants who were not contacted during either phase of the Triage Project. As of August 22, 2007, the center had reached 1,203 of these applicants. Further, SBA stated it has reconsidered the reinstatement deadline and extended it to January 31, 2008.

### **OIG Response**

We believe that SBA's proposed actions are responsive to our audit recommendation, and commend the Agency for promptly addressing issues raised by the audit.

### **Recommendation 2**

SBA agreed to review the four canceled loans that should have been declined and, if warranted, refer them to FEMA for grant assistance.

### **OIG Response**

We believe that SBA's proposed actions are responsive to our audit recommendation, and agree that referral to FEMA should only occur in those cases in which the review indicates a referral is appropriate.

### **ACTIONS REQUIRED**

We appreciate the courtesies and cooperation of the Office of Disaster Assistance representatives during this audit. If you have any questions concerning this report, please call me at (202) 205-7203 or Pamela Steele-Nelson, Director, Disaster Programs Group, at (202) 205-[Exemption 2].



## APPENDIX I. BORROWERS COMMENTS

Sample No.	Loan No.	Borrower Comments
<b>Borrowers who did not want their loans canceled</b>		
1	[Exemp2]	Applicant was angry that SBA canceled his loan against his will. He stated was not satisfied with the assistance he received from SBA because there was no consistency in the information he received from SBA and his loan was canceled without his permission. He believes that SBA canceled his loan because he had flood insurance to cover the damages.
2	[Exemp2]	The applicant did not want the loan canceled. SBA denied his request to relocate even though his damaged home was located in New Orleans, which was a "ghost town" after the storm. He felt it was unsafe to live in such a place and moved to Texas and wanted to use the money to relocate. SBA canceled his loan without any explanation as to why he could not use the money for relocation.
3	[Exemp2]	Applicant stated that he did not request the cancellation of his loan. In fact, he still wanted the loan. An SBA employee told him he needed to send in a letter to reinstate his loan, and that SBA would send out another copy of loan closing documents. He gave SBA the new address, but SBA called notifying him that the loan closing documents were returned as undeliverable. He said he also did not understand what type of letter SBA wanted to reinstate his loan.
4	[Exemp2]	Applicant did not want her loan canceled and requested reinstatement. She was dissatisfied with SBA because they were always requesting more information and it seemed the process would never move forward even though she had submitted an extensive amount of paperwork. SBA also required her to spend down all her other recovery money before getting assistance, leaving her nothing for current expenses and other emergencies. Finally she could not work/talk with anyone face to face.
5	[Exemp2]	Applicant requested reinstatement after her loan was canceled. She wanted SBA to redo her loan and allow more damages on her property than SBA had allowed. Also, she was very upset that SBA wanted her to put up her rental property for the \$10,500 loan when her property was worth so much more than that.
6	[Exemp2]	Applicant stated that he did not request that the loan be canceled. He requested and received reinstatement. He explained that the loss verifier did not inspect the interior damage to his home and underestimated the extent of damage. By the time it took to get the reassessment, the proper loan amount, and the correct paperwork returned, he had already received funds from the Road Home Program. SBA advised him that he no longer qualified for the loan and the loan would be canceled a second time.
7	[Exemp2]	The applicant stated that SBA canceled her loan without her consent. She discovered her loan had been canceled upon receipt of the cancellation letter. The applicant stated that the process took too long and the correspondence with SBA was poor. Also, SBA "was not on the same page" when it came to answering questions. The borrower was upset her loan was canceled without her permission. She requested and received reinstatement.
8	[Exemp2]	Applicant wanted the loan to replace his motor home. He was paying for the trailer, but did not have title to the motor home. He could not prove that he lived in the damaged property.
9	[Exemp2]	Applicant was notified, in the middle of a meeting with a funeral director while planning her mother's funeral, that she had 24 hours to decide whether she wanted her loan reinstated. She did not return SBA's call. Subsequently SBA determined that cancellation was appropriate. She later requested and received reinstatement.

## APPENDIX I. BORROWERS COMMENTS

Sample No.	Loan No.	Borrower Comments
10	[Exemp2]	Applicant had been in constant communication with SBA to let them know she was still interested in the loan and to inform them of her progress in obtaining flood insurance and elevation permits. The borrower also immediately requested reinstatement of her loan when she found out it had been canceled and continued to diligently seek the missing items necessary to obtain the loan. The borrower also stated that there was a lack of communication due to the turnover in SBA personnel, which made her feel like she was starting the process over each time she spoke with someone new from SBA. She further stated that every time she thought the process was on a roll, a new person took over and knocked her a few steps back in the process.
11	[Exemp2]	Applicant stated that she was caring for an invalid mother and needed her loan to find a replacement home, but could not look for property because she did not have anyone to care for her mother. The borrower told us she believed she had no other choice, but to cancel her loan. She was distressed to see that the cancellation letter indicated the loan had been canceled at her request.
12	[Exemp2]	Applicant was still interested in the loan but had also applied for the Road to Home assistance. He did have some insurance recovery, but spent an additional \$60,000 out of his own money and believes he will have to spend an additional \$40,000 to complete his repairs.
<b>Borrowers who were not ready for their loans and agreed to the cancellations</b>		
13	[Exemp2]	The applicant was unable to rebuild since the sewer system was still not in place and it would be years before it was finished.
14	[Exemp2]	Applicant said that a loan officer contacted her and told her that if she did not turn her paperwork in by noon the loan would be canceled. When she informed the loan officer that she could not return the paperwork by then and was unsure of what paperwork needed to be turned in, the loan officer informed her that her loan was canceled. The applicant was fed up with the run-around she was receiving and told SBA to go ahead and cancel the loan.
<b>Borrowers who wanted their loans canceled</b>		
15	[Exemp2]	Applicant canceled her loan because she did not want the hassle of dealing with SBA. She heard negative feedback from friends that have SBA loans.
16	[Exemp2]	Applicant requested cancellation. He did not like the collateral requirements or stipulations on the use of proceeds. However, he was satisfied with SBA customer service.
17	[Exemp2]	Applicant canceled loan because \$40,400 was not enough money to cover her damages. She said that she would have to take out a second loan for the rest of the money and believed that having one loan that met all her needs made more sense than two loans.
18	[Exemp2]	Applicant canceled her loan so that she could receive grant money from the Road to Home Program. She is waiting for the check and has received sufficient dollars to cover the repairs she needs on her home.
19	[Exemp2]	Applicant requested that her loan be canceled because she believed the loan was being over collateralized. She felt that SBA was trying to take everything that she hadn't lost in the storm as collateral. She submitted all of the paperwork at least twice, and on the third request from SBA she read the paperwork closely and decided not to return it the third time. Instead, she requested that the loan be canceled because she did not agree with the collateral terms or with the loan documents that SBA was requesting.

## APPENDIX I. BORROWERS COMMENTS

Sample No.	Loan No.	Borrower Comments
20	[Exemp2]	Applicant requested that her loan be canceled as it was for such a small amount that it was better for her to just use her own money.
21	[Exemp2]	Applicant canceled his loan because he no longer needed it.
22	[Exemp2]	Applicants decided that they no longer desired the loan.
23	[Exemp2]	Applicant requested cancellation of his loan because he did not want to attach his assets to the loan. He had over \$1 million in assets and did not want to use it to secure a \$250,000 loan.
24	[Exemp2]	Applicant decided he no longer needed the loan.
25	[Exemp2]	Applicant requested to have the loan canceled because she couldn't afford the payments.
26	[Exemp2]	Applicant didn't need the loan as she took care of the damage herself.
27	[Exemp2]	Applicant requested cancellation of the loan because he received insurance money for flood and wind damage that covered everything.
28	[Exemp2]	Applicant didn't want the loan. He filed for SBA assistance even though he didn't have much storm damage and when it came time to sign the loan papers decided he didn't have sufficient storm damage to justify the loan.
29	[Exemp2]	Applicant was not working and could not afford the loan. She was also considering a Road to Home grant.
30	[Exemp2]	The applicant canceled his loan because he decided to sell his business and retire.
31	[Exemp2]	Applicant canceled his loan because his business was no longer in operation.
32	[Exemp2]	Applicant did not want loan because the insurance company handled most of her damages and she did not want to take on any more debt at this time. If she could have used the SBA loan to consolidate other debt she would have considered taking the loan.
33	[Exemp2]	Applicant found he had enough insurance, etc. to take care of his losses himself, and so he canceled the loan.
34	[Exemp2]	Applicant remembered being notified by SBA by letter and by phone that the loan was canceled and was given the opportunity to provide missing loan closing documents to SBA. She decided she did not want the loan and elected to not return or sign any papers from SBA that had not already been submitted.
35	[Exemp2]	Applicant told SBA that he did not need the loan because his insurance covered everything and he was loan poor. He believed that he received a cancellation letter.
36	[Exemp2]	Applicant wanted the SBA loan originally, but the process went on too long with SBA continually asking for additional documents. He finally got fed up with it and told his wife it wasn't worth the aggravation.
37	[Exemp2]	Applicant canceled the loan because they repaired the home with the few dollars they had in the bank. Her husband was terminally ill at the time and wanted to have the house fixed before he died.
38	[Exemp2]	Applicants told SBA she did not want the loan because they really wanted a grant. They were too old to be able to repay the loan during their remaining life time.
39	[Exemp2]	Applicant did not remember who initiated the cancellation of her loan, but she wanted the loan canceled. She did not recall many of the details of her loan cancellation because it was so long ago. She did recall her biggest problems with obtaining the SBA loan were the high interest rate and the \$10,000 limitation on the initial disbursement.
40	[Exemp2]	The applicant did not initiate the cancellation, but when SBA called him during the Triage Project he told them he did not want the loan and did not return the loan closing documents.

## APPENDIX I. BORROWERS COMMENTS

Sample No.	Loan No.	Borrower Comments
41	[Exemp2]	The applicant did not cancel the loan. They did not return the loan closing documents because they no longer wanted the loan.
42	[Exemp2]	Applicant did not request cancellation, but doesn't want the loan as she was so dissatisfied with the service from SBA.
43	[Exemp2]	Applicant stated that she did not recall whether she canceled her loan, but if that is what the record shows, maybe she did. She said that she did not need the loan because her insurance covered her needs.
44	[Exemp2]	The applicants had not requested their loan be canceled, but did not need the loan. They could no longer wait for SBA, and sought non-SBA assistance to purchase a mobile home to replace their damaged one.
45	[Exemp2]	Neither of the joint applicants remember applying for an SBA loan. The applicants were interested in a grant because one of them is on disability leave and the other is soon to have back surgery.
46	[Exemp2]	The applicant requested his loan be canceled because he didn't want to incur additional debt.
47	[Exemp2]	The applicant requested his loan be canceled because he didn't want to incur additional debt.
48	[Exemp2]	Applicant requested that his loan be canceled because he did not want to assume such a large loan.
49	[Exemp2]	Applicants requested their loan be canceled because they did not want to use damaged home as collateral.
50	[Exemp2]	The applicant requested the loan be canceled because she was quoted different interest rates every time she inquired about the financing charges. She was not satisfied with the interest rates quoted.
51	[Exemp2]	The applicant requested the cancellation of his loan because he didn't want to incur additional debt.
52	[Exemp2]	The applicant requested his loan be canceled because he could not obtain the required hazard insurance and didn't want to use his house as collateral.
53	[Exemp2]	The applicant was unaware that her loan had actually been canceled. She had submitted loan closing documents on numerous occasions because SBA continuously lost them. Applicant stated that SBA personnel were unorganized and unprofessional and that each time she called with a question she received a different answer. The applicant requested cancellation of her loan because she did not want to use her home as collateral and did not believe the loss verifier who came to her property, who was a chiropractor, had adequate knowledge of construction and roofing to properly assess the damages.
54	[Exemp2]	The applicant canceled her loan because she felt the damage to her home was undervalued and that SBA would not give her what it was worth. She requested a re-evaluation but was told that would require additional paperwork, which she decided not to submit. The applicant also indicated that she was dissatisfied with SBA because there was no consistency to questions asked of the applicant.
55	[Exemp2]	The borrower decided to cancel the loan because she didn't want to take on additional debt and got by with insurance proceeds.
56	[Exemp2]	The applicant canceled his loan because he decided to downsize and not rebuild his damaged property.
57	[Exemp2]	The applicant didn't act on his loan because he believes he is eligible for a "Road to Home" grant. The applicant doesn't think he received a cancellation letter because he moved back to his damaged property.

## APPENDIX I. BORROWERS COMMENTS

Sample No.	Loan No.	Borrower Comments
58	[Exemp2]	The applicant canceled his loan after doing the repairs himself with assistance from his church. The borrower was upset that he couldn't get information from SBA on obtaining a business loan.
59	[Exemp2]	The applicant believed she would be receiving the "Road to Home" grant and canceled her loan. She didn't receive the grant and was now again interested in obtaining a loan from SBA.
60	[Exemp2]	The applicant was frustrated with SBA because he was continuously getting different stories from different SBA employees. The applicant finally decided it was too much of a hassle and canceled the loan. He also said he submitted his loan closing documents.
61	[Exemp2]	The applicant requested that his loan be canceled. He stated that SBA was not timely enough to assist in his situation. The applicant was upset that SBA would not allow him to do some repairs himself.
62	[Exemp2]	The applicant did not return the loan documents because she did not want the loan. The applicant stated that her biggest problem was the amount of paperwork required for the loan process.
63	[Exemp2]	The applicant agreed to cancel her loan because she was unable to afford the payment. The applicant is caring for her disabled husband and they are on a fixed income. The borrower indicated that she was displeased with the federal assistance programs as nothing was offered to assist individuals that were disabled and on fixed incomes.
64	[Exemp2]	The applicants felt that it was too much paperwork considering their situation. The applicants stated they did not want to deal with the paperwork and did not have the time to provide the needed documents. The applicants also felt rushed because they had water in their home and it was hard to meet various deadlines established by SBA.
65	[Exemp2]	Applicants initiated cancellation because the additional debt was undesirable as their son was about to enter college. Applicants had a very positive experience dealing with SBA and had no complaints.
66	[Exemp2]	Applicant canceled his loan because he couldn't qualify for a sufficient amount to cover the structural repairs to his home. Also, because the SBA employee he dealt with didn't speak good English, he felt unable to effectively communicate his desires to the employee.
<b>Borrowers that could not be contacted</b>		
67	[Exemp2]	Unable to contact applicant.
68	[Exemp2]	Unable to contact applicant.
69	[Exemp2]	Unable to contact applicant.
70	[Exemp2]	Unable to contact applicant.
71	[Exemp2]	Unable to contact applicant.
72	[Exemp2]	Unable to contact applicant.
73	[Exemp2]	Unable to contact applicant.
74	[Exemp2]	Unable to contact applicant.
75	[Exemp2]	Unable to contact applicant.
76	[Exemp2]	Unable to contact applicant.
77	[Exemp2]	Unable to contact applicant.
78	[Exemp2]	Unable to contact applicant.
79	[Exemp2]	Unable to contact applicant.
80	[Exemp2]	Unable to contact applicant.
81	[Exemp2]	Unable to contact applicant.

## APPENDIX I. BORROWERS COMMENTS

Sample No.	Loan No.	Borrower Comments
82	[Exemp2]	Unable to contact applicant.
83	[Exemp2]	Unable to contact applicant.

## APPENDIX II. MANAGEMENT COMMENTS



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

Date: August 28, 2007

To: Debra S. Ritt  
Assistant Inspector General for Auditing

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

Subject: Draft Report on the Cancellation of Approved Disaster  
Loans to Individuals and Businesses Impacted by  
the Gulf Coast Hurricanes Project No. 7409

Thank you for the opportunity to respond to this draft audit report on the cancellation of loan approvals to individuals and businesses impacted by the Gulf Coast hurricanes (referred to as "Applicants" in this response). We appreciate the information you have provided us in undertaking this audit.

The audit focused on one facet of the Agency's campaign in the Fall of 2006 to assist over 90,000 disaster victims whose SBA disaster loans had not been fully disbursed. Specifically, the audit concentrated on the Agency's efforts to personally contact by telephone approximately 33,000 Applicants who had been approved for an SBA disaster loan but had not returned their loan closing documents. These Applicants had not complied with the Agency's requirements to submit closing documents within 60 days of loan approval, and their loan approvals had expired. The goal of the call campaign was to reach out to the Applicants in order to assist them in completing the necessary closing requirements or to cancel their loan approvals if they no longer had an interest in receiving an SBA disaster loan. It was an extraordinary effort that involved large numbers of staff and many hours of work.

SBA's Buffalo Customer Service Center (CSC), which was tasked with contacting the Applicants, made diligent efforts to reach all 33,000 Applicants during this campaign. Callers were instructed to make 3 attempts to make contact with each Applicant over a 24-hour period. In many instances callers were unable to reach the Applicant directly but were able to leave a voice message. In addition, follow-up calls were made in October 2006 to reach those Applicants who were not contacted during the initial phase of the project.

## APPENDIX II. MANAGEMENT COMMENTS

As you know, SBA has in place established procedures for processing disaster loan applications and closing disaster loans. SBA sends loan closing documents to each approved Applicant, and includes a letter instructing the Applicant how and when to complete and return the loan closing documents if he or she wants to pursue obtaining a loan from SBA. Applicants are notified at the time of loan approval that they have 60 days to return their loan closing documents. Under normal procedures, SBA will send the Applicant a notice that the loan will be canceled in fourteen days if the loan closing documents are not completed and returned to SBA. These and other procedures were developed by SBA to help manage the credit risk in the disaster program and to protect government funds that might otherwise be lost to fraud, waste or abuse.

As the OIG report indicates, we did not send a 14-day cancellation notice to the Gulf Coast Applicants even though their loan approvals had expired. SBA wanted to keep the door open to these disaster victims past the usual deadline. Accordingly, we did not automatically cancel these loan approvals. Instead, as part of Administrator Preston's Accelerated Disaster Response Initiative (ADRI), the CSC was assigned the task of contacting every Applicant who had not closed his or her loan to determine if the Applicant still wanted a disaster assistance loan. Individuals who wanted to proceed with their loans were directed to a personal case manager (another ADRI-driven customer centered improvement) to assist them more actively to secure their funds. Applicants who could not be reached were called again in a second call effort.

Of the Applicants who were contacted in the first call campaign by the CSC, 16,705 requested, and were given, extensions or other needed assistance. Another 3,910 indicated that they were no longer interested in a loan, and their loan approvals were canceled. The CSC was unable to reach 7,752 approved loan applicants whose loans had expired and for whom no other evidence existed that they wanted to pursue getting the loan. Letters were sent to those individuals indicating that their loan approvals had been canceled, but that they had an additional 180 days to reinstate their loans by submitting their loan closing documents. This gave every approved Applicant a total of more than 300 days to provide loan closing documents. Even with the loan canceled, Applicants were given six month reconsideration rights to ask for their loan to be reinstated. This additional time allowed Applicants to assemble their documents, finalize insurance claims, await a determination from the various grant programs, obtain updated flood zone determinations and building codes, and plan for their individual recovery.

Within two weeks of the end of the first call campaign, the second call campaign was initiated to contact the 7,752 Applicants whose loan approvals were canceled as a result of our inability to contact them during the initial project. As a result of the second call campaign, 1,195 Applicants asked to have their loan approvals reinstated and another 3,374 Applicants requested that their loans remain canceled. Despite its efforts, SBA was still unable to reach 3,183 Applicants.

We are proud of the efforts of the CSC staff in the call campaigns. There may have been parts of the campaigns that could have been implemented more efficiently. This was, after all, an unprecedented and large scale effort that the Agency undertook. We are



## APPENDIX II. MANAGEMENT COMMENTS

concerned; however, that the draft audit report does not fairly reflect the extraordinary accomplishments of the CSC and the call campaigns. Before we address specific areas of concern that we have with the report, we note that while the report provides some useful information, it also contains statements and assumptions that are inaccurate. One important example is that the report suggests that the Agency canceled approved loans in order to meet "production standards." This is absolutely false. The CSC callers did not have production standards or goals for this campaign. No one at the CSC was promised or given an award based on how many loans they canceled and there was no incentive to cancel any loans. CSC staff devoted long hours to the call campaign so that Gulf Coast disaster victims would have an additional opportunity to receive a disaster loan if they wanted it.

Specific areas of concern in the report are addressed below.

1. **The Report fails to recognize many Applicants had not provided SBA with new contact information making them impossible to reach.**

One of the big challenges the CSC faced during the project was the inability to contact Applicants due to the forced relocation of disaster victims in the Gulf region. Many individuals initially approved by SBA relocated without advising SBA of their new address and/or phone number. During the development of procedures for this project, SBA anticipated that a large percentage of individuals with approved, but unclosed, loans would be unreachable due to bad contact information. Project team members were instructed to use -- and did access -- alternative resources (e.g., FEMA's NEMIS database and internet sites) in an effort to locate Applicants. The report gives the impression that minimal efforts were made to contact Applicants so loans could quickly be canceled when, in fact, thousands of loans had invalid contact information that precluded reaching the Applicant.

Under the RESULTS IN BRIEF section, the audit states "Approximately, 7,752 of these loans were canceled without notifying the borrowers in advance or contacting them by phone." This statement is misleading. We are concerned that the reader is left with the impression that no effort was made to contact these Applicants. In most cases, however, although the loan approval had expired and the Applicant had made no attempt to contact SBA to pursue the disaster loan, SBA attempted to reach Applicants in two separate call campaigns and SBA left messages whenever possible. Furthermore, SBA is allowing each canceled loan approval to be reinstated.

While the call campaign did not follow our usual practice of sending a fourteen day letter, SBA exceeded the norm to initiate contact with Applicants.

## APPENDIX II. MANAGEMENT COMMENTS

2. **The Report inaccurately indicates loan approvals were canceled in all cases where Applicants could not be reached.**

The report fails to recognize that an automatic extension to the loan closing deadline was granted for Applicants whose loan closing documents were issued within the previous 120 days. In 4,233 cases, Applicants received an automatic extension to their loan closing deadline of 60 days despite our inability to reach them.

3. **The Report errs when it implies that Applicants were adversely affected by SBA's temporary annotations, which indicated that cancellations were at the request of the Applicant.**

The draft audit states:

*“When borrowers could not be reached, their loans were canceled without advance notice and SBA's records were incorrectly annotated to show that the borrower requested the cancellation.”*

This statement is misleading for the following reasons:

Not all loan approvals were canceled in cases where the Applicant could not be reached. As noted above, if the loan documents were outstanding for 120 days or less, the closing deadline was automatically extended by an additional 60 days. Approximately 4,233 loans fell into this category.

SBA's computer system uses an 'action' and 'result' format to direct the flow of disaster loan applications in the system. The system could not be adapted quickly enough to provide a new field for the CSC callers to show that the Applicant could not be reached. As a temporary measure, the CSC callers used a preexisting 'action' (Conducted File Triage) and 'result' (Borrower Requesting Cancellation) to direct the application to the correct queue – the “Cancellation Pending Queue.” This was strictly for internal workflow purposes (i.e., routing files to the proper location for follow-up) and to identify the loan approval as one for potential cancellation. The annotation had no adverse impact on the Applicant's application, the outcome of the loan, or the permanent file. Later, when the loan modification was processed to cancel the loan, the electronic case file was re-annotated with the appropriate justification.

4. **Canceled loans were reinstated without additional burden to the Applicant.**

In the third paragraph of the RESULTS IN BRIEF section, the report suggests that it was very difficult to get canceled loans reinstated:

*“Further, although borrowers were later notified that their loans could be reinstated, reinstatement could not occur unless the borrowers could produce all of the documents required for loan closing, and either show that the SBA's*

## APPENDIX II. MANAGEMENT COMMENTS

cancellation action was in error or provide justification why SBA should reinstate the funds.”

We acknowledge that the standard language in the letters mailed required the Applicant to return all of the loan closing documents; however, we took a proactive approach with these Applicants to contact them and explain that they only needed to return the note and loan authorization and agreement to have their loan reinstated. To suggest that Applicants had difficulty getting their loans reinstated is misleading and inaccurate.

All 7,752 loans canceled due to our inability to contact the Applicant were revisited at the conclusion of the project, and the second call campaign was initiated. SBA tried again to contact these Applicants to determine their continuing interest in the loans. During this follow-up, we were successful in reaching approximately 4,569 individuals (59%), of which 1,195 requested to have their loan reinstated. These loans were all immediately reinstated without any further documentation or other requirements of the Applicant.

### 5. The Report does not comment on the outcome of interviews with CSC call campaign employees.

During a visit to the CSC, the OIG interviewed the center director, the deputy director, the floor managers, the team leads and the agents that worked on the call campaign, yet the report does not reflect the outcome of these interviews. In the interest of fairness, the report should contain a summary of these interviews in the context of the conclusions of this audit and a comment on whether there is any evidence or indication that the CSC “pressured” staff or Applicants into canceling loans.

Comments on the Recommendations:

Recommendation #1: Reconsider the Agency’s loan policy on reinstatement deadlines for the 6,557 canceled Gulf Coast hurricane loans that were not reinstated (7,752 loans canceled less the 1,195 that were reinstated) and notify the Applicants that extensions may be granted for reinstatement, as appropriate.

*ODA Response: ODA has reconsidered the Agency’s policy on reinstatement deadlines and has extended the deadline for Applicants to notify SBA that they would like to reinstate their loans until January 31, 2008. In addition, ODA Headquarters had already requested the CSC to follow-up with the 7,752 Applicants whose loans were canceled as a result of our inability to contact them during the initial project. As a result, 1,195 Applicants asked to have their loans reinstated, 3,374 Applicants requested that their loans remained canceled and 3,183 Applicants were unable to be reached. The CSC is continuing to try and contact the remaining Applicants that could not be contacted. As of August 22, 2007, the CSC has contacted 1,203 of the 3,187 Applicants leaving 1,984 Applicants remaining to be contacted.*

## APPENDIX II. MANAGEMENT COMMENTS

Recommendation #2: Review the four canceled loans identified in our report that should have been declined, refer these Applicants to FEMA for grant assistance, and notify the Applicants.

*ODA Response: ODA agrees to review the four canceled loans that OIG states should have been declined. It is premature, however, to make a determination to refer these Applicants to FEMA until ODA reviews each case.*

I appreciate the opportunity provided to respond to this draft audit report. If you have any questions concerning this response please call me at 202-205-[Exemption 2] or James Rivera at 202-619-[Exemption 2].

Herbert L. Mitchell  
Associate Administrator  
Office of Disaster Assistance