

AUDIT REPORT ON
APPROVAL OF DISASTER HOME LOANS
AUDIT REPORT NO. 7-6-F-003-023
SEPTEMBER 4, 1997

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US SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

**AUDIT
REPORT**

Issue Date: September 4, 1997

Number: 7-7-6-F-003-023

To: Bernard Kulik, Associate Administrator
for Disaster Assistance

From: Peter L. McClintock, Assistant Inspector General
for Auditing

Subject: Audit Report-Approval of Disaster Home Loans

Attached is a copy of the subject report. The report contains one finding and three recommendations directed to your office. The recommendations concern the need for better trained loan officers, an evaluation of the disaster home loan processing time requirement, and baseline goals for quality loan processing.

The finding included in this report is the conclusion of the Office of Inspector General's Auditing Division based on testing of approved disaster loans. The finding and recommendations are subject to review and implementation of corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.

Your office disagreed that six of the loans were processed inappropriately, partially agreed with one recommendation and disagreed with two recommendations. Our response to your disagreement is provided in the Evaluation of Management's Response section of the report. These differences should be resolved during the audit resolution process using the attached SBA Forms 1824, Recommendation Action Sheet. Please provide us your management decisions for the recommendations within 30 days.

We wish to extend our appreciation to you and your staff for their cooperation and courtesies during this audit. If you have any questions, please contact Garry Duncan at (202) 205-7732.

Attachment

**AUDIT OF
APPROVAL OF DISASTER HOME LOANS**

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SUMMARY

We conducted an audit of disaster home loan approvals by the Small Business Administration. The audit objective was to determine whether approvals were consistent with established criteria. The audit was based on a sample of 150 home loans approved between October 1, 1991, and September 30, 1995.

The majority of disaster home loans were made consistent with SBA approval criteria. The audit showed that 136 loans (valued at \$3.5 million) met approval criteria, while 14 loans (valued at \$431,400) were not approved in compliance with regulations and procedures due to a lack of documentation supporting repayment ability, credit worthiness, or other eligibility criteria. We could not, however, evaluate the significance of the number of loans approved inappropriately because the Office of Disaster Assistance (ODA) had not developed a baseline goal for loan processing errors. We noted that inappropriately approved loans had a greater percentage of non-current and charged-off loans than appropriately approved loans.

SBA disaster field office officials believed the 14 loans were inappropriately approved because loan officers had limited training or experience and had insufficient time to properly evaluate loan applications. Records could not be provided to determine actual loan officer training. There was little difference in loan officer experience levels when compared to loans with or without errors.

Based on a statistical projection of the sample results, we estimate that at least 7,811 loans were approved for about \$175 million, even though documentation in the files did not demonstrate applicants met repayment ability, credit worthiness, or other eligibility requirements. We estimate that borrower cancellations reduced loan disbursements for these approvals to about \$114 million, of which about \$14 million will be charged off because of borrower non-payments (see Appendix A).

To improve compliance with regulations and procedures in the approval of disaster loans, we recommend that the Assistant Administrator for Disaster Assistance:

- Ensure that all loan officers receive the required type and hours of training prior to being assigned to review loan applications.
- Conduct a study to determine a realistic time frame for processing disaster home loan applications and set the processing goal accordingly.
- Establish baseline goals for loan processing errors and periodically compare performance to goals.

The Associate Administrator for Disaster Assistance (Associate Administrator) disagreed with the draft report. He reviewed 13 of the 15 loans that the audit had determined were not in compliance with disaster loan processing procedures. His review indicated that 7 of the 13 loans were processed within established procedures. Based on further discussion, we agreed that one of the seven loans was properly approved and the Associate Administrator agreed that two of the loans should not have been approved. No additional facts were presented during the discussion that changed our conclusions regarding the remaining loans. In addition, the Associate Administrator partially agreed with one recommendation but disagreed with three. We removed one loan and one recommendation from the report, but believe that the other loans were not properly approved and that the other recommendations should be implemented. Our rationale is discussed in the Evaluation of Management's Response section of the report.

The findings included in this report are the conclusion of the OIG's Auditing Division based on testing of the auditee's operations. **The findings and recommendations are subject to review, management decision, and corrective action by your Office in accordance with existing Agency procedures for follow-up and resolution.**

INTRODUCTION

A. BACKGROUND

SBA's disaster loans are the primary form of Federal assistance for non-agricultural, private sector disaster losses. Long term low interest loans are provided to home owners, businesses, and renters to cover losses not compensated by private insurance.

SBA makes the following two types of disaster loans:

- Physical loans to provide funds for repair or replacement of uninsured damage to real and personal property for homes and businesses.
- Economic injury loans to provide working capital to small businesses until normal operations resume after a disaster.

Applications for disaster loans are received at a disaster site and processed in one of four Disaster Area Offices (Offices) located in Niagara Falls, NY; Atlanta, GA; Fort Worth, TX; and Sacramento, CA. A goal of 7 days has been informally set for processing each disaster home loan application. During this period the application is analyzed for repayment ability, credit worthiness, and eligibility by a loan officer whose credit decision is reviewed by a supervisory loan officer. Title 13, Code of Federal Regulations (CFR), Part 123, and Standard Operating Procedure (SOP) 50 30 2 describe how disaster loans will be processed

From October 1, 1991, to September 30, 1995, SBA approved 191,169 disaster home loans totaling \$4.7 billion. Two disasters accounted for 37 percent of the loans, Hurricane Andrew and the Northridge earthquake. The Hurricane Andrew disaster in 1992 was the largest disaster to that date for SBA, with 19,741 home loan approvals amounting to \$417 million. The 1994 Northridge earthquake eclipsed the Hurricane Andrew disaster with 98,686 home loans totaling \$2.5 billion.

B. OBJECTIVES AND SCOPE

The audit objective was to determine if disaster home loans were approved in compliance with program polices, regulations, and procedures. The audit was based on a statistical sample of disaster home loans approved between October 1, 1991, and September 30, 1995. A description of the statistical sample methodology and the projected results based on our audit are provided in Appendix A. From a universe of 191,169 loans valued at \$4.7 billion, 150 were selected for detailed analysis.

The universe of loans was stratified into five groups representing each of the four Offices and a fifth group consisting of loans for which an Office was not identified as originating the loan. We subsequently determined that these loans were processed by the Atlanta, Fort Worth, and Sacramento area offices. Thirty loans were randomly selected from each of the five groups. Each file was reviewed to determine if the loan was approved in compliance with 13 CFR Part 123 and SOP 50 30 2, and the results were provided to the approving Office for review and comment.

Field work was conducted from November 13, 1995 to February 29, 1996. The audit was performed in accordance with Government Auditing Standards.

C. FOLLOW UP ON PRIOR AUDITS

The OIG has conducted no prior audits of the approval of disaster home loans.

RESULTS OF AUDIT

FINDING Loan approval procedures were generally followed

Disaster home loans were generally approved in compliance with established guidance. Regulations and procedures, however, were not followed in approving 14 of the 150 loans reviewed. The loan files did not demonstrate that the borrowers met repayment ability, credit worthiness, or other eligibility criteria. Disaster officials believed that loan approval procedures were not followed because loan officers had limited training or experience and insufficient time to process applications. As a result, 14 loans, totaling \$431,400, should not have been approved. Further, seven of these loans, totaling \$190,400, were in liquidation or were charged-off as of July 31, 1997.

Based on a statistical projection of the sample results, we estimate that 7,811 loans were approved for \$175 million, even though borrowers did not meet repayment ability, credit worthiness, or other eligibility requirements. Borrower cancellations reduced loan disbursements for these approvals to about \$114 million. We estimate that at least \$14 million of the disbursed loans will be charged-off because of borrower non-payments (see Appendix A). The liquidation and charge-off rate for the inappropriately approved loans was higher than the rate for loans approved in accordance with SBA policies and procedures. Each of the inappropriately approved loans and related deficiencies are shown in Appendix B.

The deficiencies were summarized into three categories with details and examples discussed as follows.

Repayment ability was not clearly demonstrated

Title 13 CFR Section 123.24(b), and SOP 50 30 2, paragraph 82 and Appendix 26, require SBA to determine if an applicant has the ability to repay the debt. The SOP states that the Federal tax return is the primary source for making this determination, and if it is not available, loan officers can use state tax returns, W-2 forms, and letters from employers. Pay stubs must also be obtained if the applicant changed employers within the previous 2 years. Nine of the 14 loans had insufficient evidence of repayment ability. Loan officers either used income amounts that were not supported by Federal income tax returns or relied on prior year Federal tax returns which were contradicted by current information. In addition, loan officers made inappropriate assumptions about the status of applicant's debts and accepted statements from applicants despite contradictory information. The following two examples demonstrate loans that lacked evidence of repayment ability.

Sample # 11

A loan for \$31,700 was approved [FOIA Exemption 6] to a husband and wife for damage to real and personal property. The applicants submitted 1990 and 1991 Federal tax returns showing income of \$67,237 and \$68,589, respectively. Annual income on the application, however, was shown as \$39,200. The loan officer used annual income of \$68,783 to determine repayment ability. In addition, the loan officer did not include monthly car payments of \$493 in the repayment ability calculations. If the lower income amount and the car debt had been included in the repayment calculation for this loan, the borrower would not have had repayment ability. The borrower made 13 payments prior to the loan being charged-off on [FOIA Ex. 6].

Sample # 25

A loan for \$20,000 to repair damage to real and personal property was approved in [FOIA Ex. 6] without verifying a co-applicant's income and considering a credit bureau reported debt. The applicants reported a combined income of \$32,450. The wife's income was not properly verified by Federal or state tax returns, W-2 forms, or a letter from her employer. The wife did supply a pay stub to support her income. In addition, the credit bureau report showed over \$10,000 in debt owed by the applicant which the loan officer excluded from the repayment calculations. The loan officer excluded this debt based on a statement from the applicant that the debt had been repaid. No other verification was obtained. The loan is current.

Credit Worthiness of some Borrowers was not Determined or was Unacceptable

Applicant credit worthiness for 9 of the 14 loans either was not determined or was not acceptable. Applicants for two loans did not have a credit history, and the applicant's credit report for a third loan was not in the file. There was no evidence in the loan files that the loan officer had attempted to obtain other evidence of the applicants' credit worthiness. Credit histories for applicants of the remaining six loans showed unacceptable credit. Credit bureau reports showed that the credit histories of applicants for five loans included bankruptcies, judgments, collection actions, and multiple late payments. Although a credit bureau report for the applicant for the sixth loan was not available, documentation presented by the applicant showed that utility accounts were not paid as agreed.

SOP 50 30 2, paragraph 76, states, "All disaster loans require an evaluation of the credit background of the applicant. No disaster application should be recommended for approval or approved without making an evaluation of the applicant's credit standing and manner of handling obligations." The following chart shows the credit problems noted for the nine loans.

SAMPLE NUMBER	CREDIT WORTHINESS NOT DETERMINED	BANKRUPTCIES	COLLECTIONS	CHARGE OFF	NUMBER OF DELINQUENT ACCOUNTS	NOT PAID AS AGREED
16				1	1	
23			1	6		
24	1					
36	1					2
37	1					
55		1	4			
107	1					
114			1	2		
138		1	6	2		

Eligibility Criteria was not Properly Determined

Two of the 14 loans were approved for applicants whose eligibility was not properly determined. One loan was approved to repair personal property damage without documentation that the applicant owned the property. The other loan was approved for an individual whose alien status was questionable and credit worthiness was not properly determined.

Sample # 16

The loan was approved [FOIA Ex. 6] for \$4,800 for damage to an automobile. The applicant never claimed ownership of the automobile and presented a registration certificate that indicated someone else owned the vehicle. The loan was approved even though disaster personnel were aware that the applicant did not own the vehicle. Title 13 CFR Section 123.3, states that an eligible physical loss can only be claimed by the owner(s) of the property. No payments were made when the loan was charged-off in [FOIA Ex.6].

Sample # 37

A \$10,000 property damage loan was approved [FOIA Ex. 6] for a borrower who emigrated from Cuba 18 months prior to loan approval. The borrower provided a social security number and Florida driver's license, but no documentation, such as an alien registration card, showing how long he was authorized to stay in the U.S. SOP 50 30 2, paragraph 15(f), states "SBA must have evidence that an applicant who is a legal alien is authorized to stay in the U.S. long enough to cover the term of the loan." In addition, the loan officer's check of the borrower's Federal income tax file showed no record, and no credit report was obtained due to the input of the wrong social security number. There was no documentation that other efforts were made to determine the applicant's credit worthiness. The borrower defaulted on the loan after making \$300 in payments. The loan was charged-off in [FOIA Ex. 6].

Lack of training may have caused loan deficiencies

SBA disaster area office officials stated that the deficiencies cited in processing the 14 loans occurred because the responsible loan officers had limited loan processing experience and training. A review of the experience level of disaster loan officers indicated no significant difference between the experience level of those who processed the 14 loans with deficiencies and those who processed the remaining 136 loans that had no deficiencies. Loan officers with less than 3 weeks of experience processed loan applications for both categories of loans.

The relationship between the deficiencies noted and the type and amount of training received by the loan officers could not be determined because none of the four Offices could provide complete training records. Without such records, we could not determine whether or not the loan officers received the proper type and amount of training prior to processing the loans with deficiencies.

Loans with errors had a high default rate

The default rate for the loans with processing errors was 40 percent higher than the default rate for the loans with no processing errors. As of July 31, 1997, 7 of the 14 loans with errors were either in liquidation or charged-off (one of the remaining 7 loans that was not in liquidation or charged off was canceled prior to disbursement). This computes to a default rate of 54 percent for the loans with processing errors. As of the same date, only 16 of the remaining 136 loans in the sample were delinquent, deferred, in liquidation, or charged-off (20 loans were canceled) for a default rate of 14 percent.

The 7-day processing rule may have contributed to loan errors

Disaster Area Office officials stated that the time allotted to process disaster home loan applications may have contributed to identified processing errors. Prior to September 1992, loan officers were expected to process loans within 60 days. Effective September 1992, during the Hurricane Andrew disaster, loan processing time for home loans was reduced to 7 days. Disaster personnel indicated the reduced processing time impacted on the quality of loan processing. One field office supervisor stated that production was the single biggest factor for quality problems in loan making and attributed the reduced processing time to the deficiencies noted for sample loans applicable to his Office. A second field office supervisor also stated workload was a contributing factor to errors in loan processing and questioned whether the 7-day requirement was realistic.

Of the 150 sampled loans, only 8 were processed prior to the implementation of the 7-day rule. Our analysis of the sample loans, therefore, was inconclusive as to the relationship, if any, of the processing time frame to processing errors. It is suggested that a study be conducted to determine a realistic time frame for processing disaster home loan applications.

Baseline Goals for Loan Processing

The Government Performance and Results Act of 1993 requires establishment of performance goals to define the level of performance to be achieved by a program activity. Such indicators can be used to measure or assess the outcomes of the program activity and make necessary changes if improvements are not demonstrated. In a December 23, 1996, report on Disaster Loans Assigned to the Los Angeles District Office, SBA agreed to establish a quality assurance process to statistically review loans to determine the overall quality of the loan making process. The establishment of baseline goals for quality loan making and periodically comparing performance to goals would be the next step to ensuring a quality loan origination program.

RECOMMENDATIONS

We recommend that the Assistant Administrator for Disaster Assistance take the following actions:

- 1A. Ensure that all loan officers receive the required type and hours of training prior to assignment to process loan applications.

- 1B. Conduct a study to determine a realistic time frame for processing disaster home loan applications.
- 1C. Establish baseline goals for loan processing errors and periodically compare performance to the goals.

Management's Comments

- The Associate Administrator disagreed with much of the draft report. He reviewed 13 of the 15 loans (2 files could not be located) that the audit had determined were not in compliance with disaster loan processing procedures. His review indicated that 7 of the 13 loans were processed within established procedures. He stated that the audit results were based on the requirements of SOP 50 30 3, which was effective October 2, 1995. All the loans reviewed were processed pursuant to SOP 50 30 2, which contains different requirements in some areas that are significant in the deficiencies cited.
- The Associate Administrator also disagreed with our conclusion that there was no significant difference between the experience level of those who processed loans with deficiencies and those who processed loans without deficiencies. He stated that for the loans reviewed by his office, loan officers had overall experience of 3.67 months for the 6 loans they agreed were incorrectly processed, and 9.15 months for the 7 loans they disagreed with.

With respect to the four recommendations in the draft report, the Associate Administrator partially agreed with 1A, but disagreed with 1B, 1C, and 1D.

- In response to recommendation 1A, he stated that, while he agreed that loan officers should receive training prior to processing loan applications, he recognized that optimal training time might not be available in the case of a large disaster. He further stated that, when the revised SOP is published, he will assess the current level of training in each area office and determine the best approach in providing training to new or inexperienced loan officers.
- Concerning recommendation 1B in the draft report, he stated that it was not clear what was meant by requiring senior loan officers to make a detailed analysis of loans processed by loan officers with limited experience. He stated that senior loan officers were already making detailed reviews of loan applications. This recommendation was deleted based on these comments.

- For recommendation 1C, (now recommendation 1B) he stated that there was a lack of empirical evidence to suggest processing time was inadequate and, therefore, the current goal will remain as it was set by a former Administrator.
- In response to recommendation 1D, (now recommendation 1C) he stated that baseline goals did not need to be established because the quality of loans is subject to the availability of experienced personnel, the magnitude and number of disasters, and the environment of the work site. Also, baseline goals are not needed because quality assurance efforts are conducted in each Area Office with biennial quality reviews planned for all offices.

Evaluation of Management's Response

- After receiving the written response to the draft report, we discussed the seven loans that the Associate Administrator believed were appropriately approved. Based on our discussion, we agreed that one of the seven loans, number 4, was properly approved. This loan was removed from the report. The Associate Administrator agreed that two loans, numbers 9 and 24, were not approved in compliance with SOP 50 30 2. The two loans for which the files could not be located were not discussed. After evaluating the discussion comments on the remaining four loans, we disagree that they were approved in compliance with disaster loan processing procedures. Our response follows:

Loan #36 - A credit bureau report was not obtained and the only direct verification of the applicant's credit was two utility bills for electric service and gas service, which were 30 days and 60 days overdue, respectively. These bills were overdue prior to the disaster. The Associate Administrator's representative stated that this was not sufficiently derogatory to decline the loan. As these bills provided the only evidence of the borrower's credit worthiness, and demonstrated that the borrower did not have a positive credit history, we believe the application should not have been approved.

Loan # 37 - Although the Associate Administrator's representative said that SBA had no guidance for determining alien status, we noted that SOP 50 30 2 stated that SBA must have evidence that the applicant was a legal alien and was authorized to stay in the U.S. long enough to repay the loan. This was not done by the loan officer.

SOP 50 30 2 states that all disaster loans of \$10,000 or more must have a credit report or verification from other credit sources. As indicated in the finding, the credit

report for this borrower was not obtained because the loan officer did not use the correct social security number. The loan officer should have realized his error when the credit sources reported by the borrower were not found. A direct verification was received from the applicant's trailer park manager. The value

of the verification, however, was questionable as the applicant had only lived there one month.

Loan # 114 - The Associate Administrator stated that the applicant had repayment ability if the mortgage and lot rent were excluded. We do not agree that lot rent could be excluded. Our computations show that the maximum acceptable fixed debt (MAFD) would have to be increased in excess of the applicant's historical levels to demonstrate repayment ability with the lot rent included in the debt figure. The applicant did not qualify for a MAFD increase in excess of historical levels because the applicant did not have a high income, did not have future prospects of income increases, and did not have an excellent credit history.

Loan # 84 - The Associate Administrator agrees that written documentation was not received to verify employment or income, but indicates that verbal confirmation of the applicant's employment and income level was acceptable. SOP 50 30 2 requires that documentary evidence be obtained to verify employment and income. Also, when the applicant has been employed less than 2 years, as this applicant had been, a current pay stub is required.

- Concerning loan officer experience, our conclusion was based on a comparison of the 15 problem loans to the 135 non-problem loans in our sample. The Associate Administrator's comparison was only of 13 of the 15 problem loans, rather than the entire 150 loan sample, which is too narrow in scope to effectively evaluate loan officer experience.

We evaluated the Associate Administrator's responses to our recommendations and have the following comments:

- **Recommendation 1A:** The Associate Administrator agrees that loan officers should have training prior to processing loans, but states optimal training time may not be available during large disasters. It is in the best interest of the disaster victim and the Government, however, to provide loan officers with adequate training prior to processing disaster loans. The Office of Disaster Assistance should develop a strategy for training loan officers. The strategy should determine the type of training needed, the best method

for presenting training (e.g., a training video could be given to loan officers for viewing), and the time needed to train loan officers. The time used to provide the necessary training could ultimately improve loan production and preclude approval of loans to ineligible recipients.

- **Recommendation 1B:** We agree that no empirical evidence exists regarding the 7 day loan processing requirement which is why we recommended such a study. Disaster field personnel believe the high production requirements, along with inadequate training, are major contributors to the loan processing errors identified. A study of the loan processing time requirements by the ODA could ascertain whether the current requirements are reasonable to produce quality loans.
- **Recommendation 1C:** The Associate Administrator states that setting baseline goals is not necessary as quality assurance reviews are planned. Establishment of goals for quality loan making both stresses management's desire to emphasize quality and provides a means to measure performance. In addition, as stated in the report, setting baseline goals would bring the disaster program in compliance with the Government Performance and Results Act of 1993.

Statistical Sampling Techniques and Results

From the review population of 191,169 disaster home loans valued at \$4.7 billion that were approved between October 1, 1991, and September 30, 1995, we selected a random stratified sample of 150 to develop our estimates of population values. Because this was a random or statistical sample, the population estimates have a measurable precision and sampling error. The precision is a measure of the expected difference between the value found in the sample and the value of the same characteristic that would have been found if a 100 percent review had been made using the same techniques.

Sampling precision is indicated by ranges, or confidence intervals, that have upper and lower limits and a certain level of confidence. Calculating at a 90 percent confidence level means the chances are 9 out of 10 that if we reviewed all of the loans in the population, the resulting values would be between the lower and upper limits, with the population midpoint estimates being the most likely values. We used the population mid-point estimates; however, the amounts could be as little as the lower limit or as high as the upper limit.

We calculated the following population estimates and lower and upper limits using the U.S. General Accounting Office 'SRO-STATS' program at a 90 percent confidence level.

Population Estimates

Value	Population Lower Limit Estimate	Midpoint Estimate	Upper Limit Estimate
Approved Amount	\$175,213,000	\$410,754,900	\$646,287,800
Disbursed Amount	\$113,764,800	\$321,923,900	\$530,083,000
Charged off Amount	\$13,744,320	\$ 48,266,390	\$82,788,460
Number of Loans Approved	7,811	15,598	23,385

Appendix B

**Summary of Loan Processing Deficiencies
As of October 11, 1996**

Loan Number	Sample Number	Loan Approval Date	Approved Loan Amount	Disbursed Amount	Charged off Amount (Principal)	Repayment Ability		Eligibility not Determined	Problem with Credit History	Loan Status
						Income Not Supported	Debt Not Supported			
[FOIA Ex. 6]	1	1/23/91	\$112,200	\$112,200	\$0	X				Liquidation
	36	3/3/93	\$4,700	\$4,700	\$4,626				X	Charged off
	9	9/10/92	\$92,300	\$92,300	\$0		X			Current
	11	9/19/92	\$31,700	\$10,000	\$8,911	X	X			Charged off
	16	10/7/92	\$4,800	\$4,800	\$4,800	X		X	X	Charged off
	23	11/11/92	\$10,000	\$10,000	\$0	X			X	Current
	24	11/12/92	\$12,000	\$10,000	\$9,701				X	Charged off
	25	11/16/92	\$37,000	\$20,000	\$0	X	X			Current
	37	3/3/93	\$10,000	\$10,000	\$10,000		X	X	X	Charged off
	107	8/11/94	\$15,200	\$0	\$0				X	Canceled
	114	10/27/94	\$58,600	\$42,500	\$0		X		X	Current
	55	8/18/93	\$15,000	\$8,800	\$8,800				X	Charged off
	138	6/16/95	\$3,400	\$3,400	\$0				X	Paid in full
[FOIA Ex. 6]	84	5/6/94	\$24,500	\$24,500	\$0	X				Current

Date:

To: Peter L. McClintock
Assistant Inspector General For Auditing

From: Associate Administrator
For Disaster Assistance

Subject: Draft Audit Report-Approval of Disaster Home Loans

This is in response to your draft audit report of February 24, 1997-“Approval of Disaster Home Loans”. Please accept my apologies for the delay in providing this response. We have reviewed the draft report and 13 of the 15 loans that your office determined not to be in compliance with disaster loan processing’s standard operating procedures. We could not obtain two of the loan files.

Our review indicates that 7 of these 13 loans were processed within the established operating procedures at the time of processing and should have been approved. We note that many of your comments refer to the requirements of SOP 50-30-3, however all of the loans that we review were processed pursuant to SOP 50-30-2, which contains different requirements in some areas that are significant in the “deficiencies” cited. An analysis of each loan is attached. Of the 6 loans totaling \$101,900 that we agree should not have been made, 3 have been charged-off for a total of 22,511, 1 is delinquent and 2 are current.

Your report indicates that there is no significant difference between the experience level of those who processed loans with deficiencies and those who processed loans that had no deficiencies. In the 13 cases that we reviewed, we found that the overall experience of the processing loan officers was 9.15 months compared to 3.67 months for the 6 cases that we agree should not have been made. Five out of 6 of these cases were processed by loan officers who averaged only 1.8 months of experience. This indicates that errors are more likely to be made by the least experienced loan officers.

With respect to your recommendations on improving compliance with regulation and procedures in the approval of disaster loans we make the following responses:

We agree that loan officers should receive training prior to processing of loan applications, but any consideration of specific types and hours of training to have to be tempered by the demands of the program caused by specific disasters. If large disasters occur at a time when we have insufficient staff resources, optimal training time may not be available. When the revised (“plain English”) SOP is published we will assess the current level of training in each of the area offices. From that assessment we will determine the best approach in providing training to new and or inexperienced loan officers and implement it.

Peter L. McClintock

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It is not clear what you mean by requiring senior loan officers to make a more detailed analysis of loan applications reviewed by loan officers with limited loan processing experience. Currently, the senior loan officers are responsible for reviewing each loan. Some use a checklist for this review, while others may review the complete file in some cases. The extent of review in any given case will depend on the complexities of the case and the confidence the reviewer has in the knowledge and experience of the loan officer.

We do not agree with your recommendation to conduct a study to determine a realistic time frame for processing disaster home loan applications. Our goal is to process all loans within 7 to 21 days, recognizing that home loans may be processed at the lower end of the scale. The 7 to 21 day timeframe for processing of disaster loans was a goal set by the Administrator and is a goal that we try to meet on the majority of applications. Our weighted average processing time for the first six months of FY 97 was 11.45 days. There is no empirical evidence that errors identified in your report are attributable to a processing timeframe goal or if given more time the loan officer would not have made the error.

We do not agree with your recommendation to establish a baseline goal for loan processing errors. It is our objective to the extent possible to ensure that disaster loans are processed within established operating procedures. As we have stated on previous occasions, the quality of disaster loan making is subject to the availability of experienced personnel, the magnitude of the disaster, the number of disasters being handled and the working environment in which we are operating. We continue to emphasize training and rotation of loan officers to gain experience. In addition to the quality assurance efforts being conducted by the staffs in each of the area offices, we will conduct quality assurance reviews of at least two of the area offices each fiscal year. We also believe that with the implementation of the "Automated Loan Officer Report" which has been developed, a number of processing errors will be eliminated.

Overall, it appears that 6 out of 148 loans should not have been approved for an error rate of approximately 4 percent. It is our opinion that an assessment of the loan officer training needs, implementation of quality reviews and automation of the loan officer report is sufficient to address the problems identified in your audit report.

Bernard Kulik

ODA REVIEW OF OIG AUDIT

Approval of Disaster Home Loans

SAMPLE 36- [FOIA Ex.6]

OIG comments: Problem with credit history.

ODA summary: The loan was processed within established guidelines when addressing repayment ability and credit.

1. No PMQD-13 in file, cannot verify any existing SBA loans.

The file does not contain a PMQD-13. The screening sheet indicates this is not required. The “A” answered No to question F1 on the 5C. Per SOP 50-30-2, Paragraph 76 C., when there is no prior experience, the LO is not required to request a summary of SBA prior history. LO was in compliance. Additionally, there is documentation (chronlog) in file of reviewing the MARS report indicating no record found of any SBA loans for this “A”. In April 1994, ODA issued instructions to obtain PMQD 13’s on all home loans.

2. No record on CBR.

SOP 50-30-2, Paragraph 76, A.2, states for a loan under \$10,000, direct verification with credit references only will suffice. Other credit reports may also be ordered as deemed necessary. The file contains two utility bills, dated 11/92. While the LO did not question whether the bills were current or past due, this information serves as a direct verification of the “A” existing credit history, even though each bill is indicating a prior amount due. The LO determined this information as acceptable credit.

3. Non-verification of rental payment.

The SOP does not require a contact with the landlord to verify the amount of the monthly rent. “A” submitted two utility bills as evidence of residency which reflect the same address on the FTR’s for 1990 and 1991. The LO would not require proof of the rent expense for calculating monthly fixed debt as this information is contained on 5c.

Sample 11 [FOIA Ex.6]

OIG comments: Repayment ability; Income not supported, Debt not supported.

ODA Summary: The LO did not correctly calculate the applicant’s income or total monthly debts. The loan should not have been approved due to a lack or repayment ability, without further clarification of conflicting information.

1. Repayment Ability

A. Collateral Issue- Loan modification #2 reduced the loan to \$10,000 and released the collateral per the “A” request. The deletion of the collateral requirements was granted as permitted by SOP, as there had been no adverse changes in the “A” repayment ability or credit since approval of the loan.

B. Income Issue- [FOIA Ex.6]

The L/O did not differentiate the information on the 5C from the FTR's and thus overstated wage income.

[FOIA Ex.6] The LO did not annualize either the income or the debt for the rental property, consequently understanding both rental income and debt. The differences in reported income were not reconciled.

C. Debt Issue- The LOR does not have a reconciliation of debts listed on the 5C with debts listed on the CBR. The chronlog does not contain a conversation where the LO discussed the "A" debts or credit history. The LO used the debts listed on the 5C to determine the monthly fixed debt. In Section L. Repayment, (LOR) includes the following justification for increasing the MAFD to 41%, "due to the good manner in which the "A" has been paying their obligations as per credit report." The LO determined that all debts were paid as agreed and proceeded to process the loan using the information on the 5C. Additionally, the CBR listed multiple accounts that were not shown on the 5C including and auto payment (\$493 mo.) and several charge (bank and AMEX). The total monthly credit card debt should have been \$2,184.

Income/Debts should have reflected the following: [FOIA Ex.6]

Sample 16- [FOIA Ex.6]

OIG comments: Repayment ability, Income not supported; Eligibility not determined; Problem with credit history.

ODA summary: The LO accepted the registration documentation submitted by the "A" to establish eligibility and conditioned the loan accordingly. The lack of documentation linking the registered owner and our "A" is the issue. Also, the LO did not verify the "A" income and adequately address the adverse credit information. The loan should not have been approved due to not being eligible, lack of repayment ability, and an unsatisfactory credit history.

1. Employment Status

The FEMA 90-69 lists personal and unemployment in the temporary housing section. The 90-69 reflects an income of : [FOIA Ex.6]

The 5C indicates the “A” had been employed for one year. There is no verifiable documentation (Pay stub/Federal tax returns/letter of employment) in file to substantiate the income shown on the 5C which was used to determine repayment ability. IRS Form 4506, request for tax transcripts is in file, dated 10-12-92 which was five days after the loan was approved. There is no date stamp on the document to determine when it was received.

2. Ownership of Damage Property

The screening checklist reflects the requirement for the “A” to provide proof of current registration for the damaged vehicle. The deficiency letter to the applicant [FOIA Ex.6] requested this information. The LV report dated [FOIA Ex.6] states that the applicant is not the owner of the vehicle and can not provide proof of ownership. LV also commented and allowance needed to be made after “a” provides ownership documentation. There is a copy of an application for certification of title and or vehicle registration in file; however, there is no date of receipt even though it is directed to the attention of the LO. The name of the owner listed on the form is [FOIA Ex.6] The loan was condition to have [FOIA Ex.6] sign a Waiver of Eligibility, which she did [FOIA Ex.6]. Additionally, the chronlog does not reflect any contact by the LO with the “A”. It appears that contact was made and the ownership situation was explained and the subsequent waiver of eligibility was used to allow for prompt processing of the application.

3. Credit Bureau Report

The CBR dated 10-1-92 list only two trades: an oil company and a jewelry company. The oil company is shown as a charge off and the jewelry company is shown as five months past due. The LOR reflects a satisfactory credit status. There is no comment about the adverse credit.

SAMPLE 24 [FOIA Ex.6]

OIG comments: Problem with credit history.

ODA summary: ADOB report and CBR for the co-“A” should have been obtained The lack of a DOB and CBR for the co-“A” would not have made a difference in the original decision. The loan approval was appropriate based in the “A” repayment ability and credit at the time of processing.

1.A. No PMQD-13 in file. Cannot verify existence of SBA loan.

The screening sheet indicates this not required. The “A” answered No the question F1 on the 5C. Per SOP 50-30-2, Paragraph 76C., when there is no prior experience, the LO is not required to request a summary of SBA prior history. LO was in compliance. In April 1994, ODA issued instructions to obtain PMQD 13’s on all home loans.

B. NO DOB in file.

There is no DOB in file. There is no comment on the 5C or on the LOR regarding any additional assistance received. The lack of a DOB is a processing oversight. However, the maximum amount of MRP funds awarded by FEMA would be \$5,000. In some circumstances an award could be increased to \$10,000. Regardless of the amount, the “A” requested a loan of \$12,000. There appears to be no duplication of any benefits based on the loan amount.

2. A. Co-“A” credit report not in file.

A credit report was obtained on the primary “A” per the instructions on the screening checklist. It appears that the “A” crossed off his wife’s information on the 5C. A CBR was not subsequently obtained when the co “A” was included on the loan. However, a CBR was obtained on the co-“A” on 1-11-96. CBR listed four trades:2 opened after the date of the SBA’s loan approval. The accounts were paid as agreed, except for one I-2 rating in 1995 (after SBA loan approval).

B. LOR, Section H incomplete.

The LO did not indicate the length of employment for the co-“A”. The LO did state the job stability as good. The 5C indicates the co-“A” length of employment as 11 years, resulting in the determination of good job stability. Because the co-“A” was employed for 11 years with the same employer, a verification of employment or a copy of a pay stub was not requested.

SAMPLE 37- [FOIA Ex.6]

OIG comments: Repayment ability, Income not supported, Debt not supported; Eligibility not determined; and Problem with credit history.

ODA summary: The loan processed within established guidelines.

1. Residency Status

“A” advise LO that he had been in this country for 1.5 years. When the “A” had registered for disaster assistance, FEMA had not yet revised their procedure requiring disaster victims to answer questions regarding alien resident status. And SBA had no established procedures for a LO to follow on questioning the “A” about alien resident status. The fact that the “A” could not speak English should have no bearing as to their residency status. Nor should the fact that the LV did not meet directly with the “A”.

2. Pay Stubs

The “A” provided written documentation on company letterhead from both his employers verifying employment and income. The LO subsequently made a direct contact over the telephone with each employer. The LO used a direct check with the employer instead of requesting pay stubs which appears reasonable.

3. Verification of Debts

The “A” listed two debts on the 5C: Ford Motor Company and Sears, Roebuck & CO. Neither debt

appeared on the CBR. The CBR indicated no record found. The LO accepted the lack of

verifiable credit information as satisfactory and included the debts as part of the “A” monthly expenses. The only verifiable credit reference is the documentation from the mobile home park manager where the “A” resided. The LO should have acknowledged the existence of the debts in section C of the LOR.

SAMPLE 55- [FOIA Ex.6]

OIG comments: Problem with credit history.

ODA summary: The LO did not make proper credit determination. The loan should not have been approved due to an unsatisfactory credit history.

1. Questioning decision to approve a loan 3 years after bankruptcy. SOP 50-30-2 considers credit reestablished after a bankruptcy if since two years form the bankruptcy the “A” meet certain criteria. In this case, the applicants met the criteria. The LO accepted the information presented on the 5C and did not question the applicants regarding any credit issues. In reviewing Section C of the LOR, it appears that the LO considered the only trade on the CBR as evidence of the applicant’s attempt to reestablish their credit. Additionally, there CBR obtained on 8-12-93 does not contain any reference to bankruptcy. It is the CBR obtained by Servicing on 11-1-95 that reflects Chapter 7 Bankruptcy discharge on 4-16-90. At the time of processing there was no indication that the bankruptcy had been discharged. The LO did not reference any of the derogatory items (six collection accounts), the bankruptcy (as indicated on the 5C0 or the charged-off prior SBA Loan (per PMQD). The Chronlog does not have any discussion with either “A” about the current or pervious credit history.

Additionally, the dates of last activity of the collection accounts on the CBR are widespread form 7/88 to 6/92. Since the Loan Officer did not ascertain the date of the son’s purported accident, we are unable to verify that they are all related (five are medical, one of which should have been included in the bankruptcy, and one is paid, a utility collection).

SAMPLE 138- [FOIA Ex.6]

OIG comments: Problem with credit history.

ODA summary: Based on the CBR, the applicant had not reestablished her credit. The credit history since the Bankruptcy filing appears unsatisfactory. The loan should not have been approved due to an unsatisfactory credit history.

1. No PMQD in file, cannot verify SBA Loans.

The screening sheet in file indicates a PMQD is required. The Chronlog reflects two entries dated 6-9-95 which state “Not Found in State’s Charge-off List” and “Not Found in DB List”. The entries reflect that a PMQD-13 was not available and a manual check of existing records was done. The proper procedure was followed. In April 1994, ODA issued instructions to obtain PMQD 13’s on all home loans.

2. Poor credit not adequately reviewed.

The LO did not check on the LOR whether the credit was satisfactory or unsatisfactory. This was an oversight as the LO recommended loan approval. The credit appeared to be satisfactory based on the explanation from the “A” in that the adverse credit was medical in nature. However, after reviewing the CBR several issues were not properly evaluated. The bankruptcy occurred in 8/88. The first trade after the bankruptcy was in 7/88-medical debt-rated I-9 and last reported in 1/92. The next new trade opened in 8/92-medical debt-rated I-9. There are three remaining trades, all finance companies, one paid in full and the other two reporting current at the time of processing. The four year differences in the opening dates of both medical trades indicates they are not related.

Under the Public Records section of the CBR, there are 6 collections and a satisfied judgement in addition to the bankruptcy. The judgement was in 3/94 and satisfied in 4/94 for Jefferson Acceptance Corp.-not a medical debt. The dates of last activity for the collections range from 9/90 to 6/94; with only two referencing a medical debt- Pendleton Methodist Hospital. Of the remaining four, two are unknown, one is for I. C. Systems and the other is for Premier Bank, neither of which are stated as medical debts. The LO did not provide a satisfactory explanation of reestablished credit after bankruptcy.

SAMPLE 9 – [FOIA Ex.6]

OIG comments: Repayment ability, debt not supported.

ODA summary: The LO processing a request for an increase did not include a re-analysis of the income/debts when processing the loan modification action. The LO assumed the mortgage debt was paid in full. The final outcome on repayment ability remains unchanged whether or not the mortgage loan was partially paid or paid in full. The loan modification resulting in the loan increase was properly analyzed and repayment was reasonably assured.

1. 186% of CA used without justification.

“A” received insurance funds \$77,048 for R/E damage that were used for a mandatory payment to the mortgage holder (her parents). “A” also requested re-verification of personal property damage to increase eligibility to allow for some uncompensated personal property losses after application of insurance proceeds. Mod action #2 dated 11-10-92 approved and increase in the loan amount by \$40,900 to [FOIA Ex.6]. The new installment amount was \$465 a month.

The loan was originally approved for [FOIA Ex.6] at 44.85% MAFD, with a monthly installment of \$251. The calculation of MAFD included the existing mortgage payment of \$963 a month. With the mandatory payment of \$77,048, the mortgage payment is no longer applicable. Therefore, the 186% of CA does not apply.

The LO processing the Mod action did not include a new MFD analysis on their memo to file and the LO did not inquire as to whether the entire mortgage had been paid in full and if not what the terms

would be for the residual balance. The subsequent promissory note to the original

promissory note states payment in full is required upon request and no later than 6-30-93. This note was at a rate of 6%. These funds were used to pay off the original note that had a rate of 9.75%.

It appears the LO assumed that the “A” made a payment in full to her parents while not addressing the residual \$41,000 mortgage balance. However, as shown below, the “A” revised payment of \$465 falls well within the 100% of CA.

	Loan Pain in Full	@6%	@9.75%
GAI	\$32,496	\$32,496	\$32,496
GMI	\$2,708	\$2,708	\$2,708
MAFD	\$1,083	\$1,083	\$1,083
MFD	0	\$246	\$353
CA	\$1,083	\$837	\$730
1/3CA	\$361	\$279	\$243

Calculations for both the 6% and 9.75 loans were based on a fixed rate 30 year loan for \$41000. (\$118,000-\$77,048=\$40,952).

2. No PMQD or DOB obtained.

The LOR references the 5C. The “A” answered No to the question, F1 on the 5C. Per SOP 50-30-2 Paragraph 76 C., when there is no prior experience, the LO is not required to request a summary of SBA prior history. LO was in compliance. In April 1994, ODA issued instructions to obtain PMQD 13’s on all home loans.

SAMPLE 23-

[FOIA Ex.6]

OIG comments: Repayment ability, income not supported; Problem with credit history.

ODA summary: It appears that the LO discussed with the “A” issues regarding the weekly income (\$400), the derogatory credit, the disposition of the car debts, and the difference in rent. However, there is no Chronlog entry. The loan should not have been approved due to lack of repayment ability and for an unsatisfactory credit history.

1.A. No PMQD-13 in file cannot verify existing SBA loans.

The screening sheet indicates this is not required. The “A” answered No the question F1 on the 5C. Per SOP 50-30-2, Paragraph 76C., when there is no prior experience, the LO is not required to request a summary of SBA prior history. LO was in compliance. In April 1994, ODA issued instructions to obtain PMQD 13’s on all home loans

2. A. DOB

The 5C reflects assistance of \$1,791 which the “A” indicated was for rent. The DOB report indicates the funds were for EER which confirms the temporary housing assistance which is not a DOB. LO was in compliance.

B. Length of Employment

The question regarding length of employment in the 5C is requested in order to assist to LO in determining job stability and whether or not to require a pay stub (if less than two years).

The Disaster program will not decline an “A” because of short employment or job stability. The “A” provided a letter of employment which confirmed her employment and income. The employment letter was acceptable evidence of income. While the LO did not comment on length of employment in the LOR, the information had no impact on repayment ability. The LO is indicate that job stability was fair. The LO was compliance.

C. Income.

Calculation- The letter in file indicates weekly income of \$300-\$250 (sic); the LO listed \$400. However, there is no indication in the file or LOR where the \$400 determination was established. The 5C lists the “A” weekly income as \$500 and an additional \$500 in support from the “A” father. The “A” submitted a letter explaining all her records were destroyed and she could provide copies of the wire transfers of the funds from her father in Brazil, but that it would take time. The LO did not include the undocumented income in the analysis.

D. Monthly Debts.

The CBR list six accounts that have been charged-off-(R-9), one unpaid collection account and one slow pay on the “A” car loan. All the derogatory items are pre-disaster and; the LO did not address any of the items. The CBR list two automobile debts and the LO stated the ex-husband makes car payment therefore the debt was not included. The file does not include any verification. The 5C shows rent as \$875 a month, and the LOR reflects rent of \$550. The LOR does not have an explanation of the difference.

SAMPLE 25 [FOIA Ex.6]

OIG comments: Repayment ability; Income not supported, Debt not supported.

ODA summary: The loan amount was limited based on the limited repayment ability. The LO did not properly analyzw the credit card debt, which should have resulted in an increased monthly fixed debt and subsequent decline based on lack of repayment ability. The loan should not have been approved due to lack of repayment ability.

1. Income and credit problems.

Income- [FOIA Ex.6]

Credit- The LOR and 5C show the "A" mortgage payment as the only debt. The LO spoke with the "A" and LO was informed by Mr. that all credit card debt had been paid in full. Mr. challenged the LO to contact the creditors. LO did not contact any creditor or request any additional documentation to confirm the credit card debt. The LO did not obtain the proper verification necessary to resolve the questions regarding outstanding credit.

2. No PMQD-13 in file, cannot verify the existence of prior SBA loans.

The screening sheet did not address the PMQD. The "A" answered No to question F1 on the 5C. Per SOP 50-30-2, paragraph 76 C., when there is no prior experience, the LO is not required to request a summary of SBA prior history. LO was in compliance. In April 1994, ODA issued instructions of obtain PMQD 13's on all home loans.

3. No DOB report in file.

There is no DOB report in file. This was an oversight of the LO.

SAMPLE 114

OIG comments: Repayment ability, Debt not supported; Problem with credit history.

ODA summary: The LO did not get clarification or comment on a charged-off account of \$558 that had an \$18 mo. payment. The LO used the most current/verified income information to base the loan recommendation. The LO did not include a payment for a replacement vehicle, but did include the debts for the mortgage and lot rent for the destroyed manufactured home, which almost cancel each other (a \$38 difference). The LO determined that the "A" had acceptable credit and repayment ability. The loan was processed within established guidelines when addressing repayment ability and credit worthiness.

1. Income not verified from 8821 (IRS tax transcripts), pay stubs to LOR. The IRS tax transcripts for 1992 & 1993 reflected "A" wage income and co "A" social security income. The 5C indicated a weekly amount that was greater than the income reflected on the tax transcripts. The LO obtained verbal confirmation through a telephone call with employer of the current wages. The LO complied SOP Appendix 26 2 a. (1) by contacting the employer to confirm the current salary, which would explain the discrepancy between the Form 5C and the tax transcript.

2. A. Derogatory Credit not addressed- 3 repossessions.

The CRB lists three charge-off accounts; one indicates payments are being made the Chrolog states co-"A" advise one account was not his and was in dispute, one account has no explanation. The LO indicated on the LOR that credit was satisfactory. The LO documented a explanation was acceptable. The CBR for the "A" did not contain any delinquent accounts.

B. Reduce MFD because insurance paid off car debt.

At the time of original processing, the "A" had received insurance recovery of \$23,089 and ;a month later an additional \$15,150. The initial recovery was for two vehicles and some personal property.

The proceeds were used to pay off one vehicle, \$17,390. A real estate recovery had not yet been awarded, but as the manufactured home was totally destroyed, normal procedure would be for the mortgage holder to require a mandatory pay off of the existing loan. The CBR showed a balance as on 8/94 of \$3,288. It appears that the "A" may have paid the mortgage from the proceeds of the first or second insurance recovery. However, there appeared to be sufficient funds remaining for the purchase of a replacement vehicle. Also, the payment of the mortgage would eliminate the mortgage and lot rent. The LO processed the loan including the two debts and since the property was totally destroyed the proceeds from SBA loan went towards its' replacement.

With the pay off of the mortgage, revised MFD excluding the mortgage payment and lot rent would be \$241. The car payment at the time of the disaster was \$334. If the payment were included, the MFD would be \$575. With an MAFD of \$898, CA would be \$323 with 1/3 CA of \$103. The original payment of \$286 would fall within 100% of CA. Repayment ability appears reasonably assured.

SAMPLE 4 [FOIA Ex.6]

OIG comments: Repayment ability, Dept not supported.

ODA summary: The loan was processed within established guidelines when addressing repayment ability. This is a viable loan with two applicants, one an attorney with significant prospects for increased future income, who both have excellent credit and at the time of processing, sufficient income to handle both their current debt and the SBA payment.

1. Repayment ability incorrectly determined. MDF calculations understated.

The miscalculation of MFD focuses on two separate debts, a car payment and a student loan payment. The car payment of 227 appears only on the CBR; the last date of activity is 9/91. The Chronlog reflects the "A" informing the LO that payment in full of the auto debt was a requirement for purchasing the new home. The purchase was executed on 9-26-91. The CBR verifies that the debt was paid in full in 9/91 (The applicant did not list this debt on the 5C0. The student loan payment to St. Johns of \$150 only appears on the 5C along with another student loan payment of \$288 to a Student Loan Servicing Center in VA. The \$288 debt does not appear on the CBR as verified by the account number on 5C. The payment for this debt is listed on the CBR as \$29. The LO used this payment for ST. Johns' debt in lieu fo the actual \$150. The total monthly debt for student loans should be \$438 (The student loan with the \$29 payment is included in the \$228 amount as both loans were consolidated per chronlog with the "A" on 2-4-92). The LO appears to have misinterpreted the AFSCI debt of \$245 as a student loan when it was instead a Visa debt. If the standard 5% is used , the monthly payment would be \$12.

Income: \$87,631 per LOR; MFD: Mortgage \$2,404 Student Loans \$438, Car Payment \$227, Visa \$12-Total MFD \$3,081. Although the car payment was paid in full, it is included in the analysis to reflect the maximum debt load and to show the "A" repayment ability. "A" high income and excellent credit history would justify increasing MAFD%

	40% MAFD	44.2% Modified MAFD
GAI	\$87,631	\$87,631
GMI	\$7,303	\$7,303
MAFD	\$2,921	\$3,229
MFD	\$3,081	\$3,081
IIP	\$51	\$47(Ins. Policy in file dated 11/91)
CA	\$<211>	\$101

SAMPLE 84

[FOIA Ex.6]

OIG comments: Repayment ability, Income not supported.

ODA summary: The loan was processed within established guidelines. The processing and disbursement procedures were appropriately followed. A PMQD was obtained twice and the DOB report in file indicates no award at the time of processing. Wage income was verified by telephone.

1. No PMQD-13 in file, cannot verify existing SBA Loans.

File received 3-18-94. A PMQD-13 was obtained with “No Data” on PMQD-13 (form in the file). On 4-16-94, another attempt was made to obtain a PMQD-13 as evidenced by the “re-checked 4-16-94” notation. No data was reflected. In April 1994, ODA issued instructions to obtain PMQD 13’s on all home loans.

2. A. Income- a. No source in file to verify income from 5C.

b. Employment is less than 2 years, no pay stub in file.

LO requested proof of income, two years of FTR’s and a current pay stub. LO contacted “A” employer to verify her employment and income. Chronlog indicates the income was verified as \$29,300 which was consistent with 5C.

B. Disbursements- Second disbursement of \$14,500 was made without Form 1366 and is violation of SOP 50-30-3, paragraph 95, section C-1.

The initial disbursement of \$10,000 occurred on [FOIA Ex.6] with the remaining \$14,500 disbursed on [FOIA Ex.6] SOP 50-30-3 was not in effect at the time of loan approval; however, Paragraph 96 B.1.,states the initial disbursement may be up to \$25,000 if the collateral conditions are met. The following collateral conditions were met prior to the second disbursement: 1. D/T was recorded on 7-18-94; 2. Proof of hazard insurance was received on 8-4-94. On 8-4-94, Attorney approved second disbursement of \$14,500. Form 1416 indicates \$14,500 issued on 8-5-94. Because the collateral conditions were satisfied and the amount was less than \$25,000, second disbursement was made without the Form 1366 and in compliance with SOP. Note that the procedures were outlined in Area Directors Memo #94-41, dated 6-3-94.

C. No DOB report in file; L/V report indicates funds received; and “A” did not respond to question on 5C.

A DOB report in file dated 4-19-94 states the DOB/FEMA 408B request for the applicant is currently not available in the FEMA network at this time/date. The date of the report is consistent with the date listed on the LOR.

The L/V report indicates \$1,100 received from FEMA. The date of the L/V report is 4/9/94; the date of the DOB report is 4-19-94. SBA approved the loan before the FEMA award. A DOB report dated 2-6-96 indicates an award of \$1,121.40 (3-19-94) and \$7,507.20 (7-08-94) were approved. The LO should have contacted both FEMA and the “A” regarding the L/V note; however, had the LO contacted FEMA it appears that they would not have been able to verify the award. Additionally the award letters during this disaster allowed the “A” to use the FEMA funds for either temporary housing or minimal repairs.

(Note: FEMA initially allowed 3 months of temporary housing and the LO may have assumed that the funds were for the “A” first mortgage which was \$360 month or \$1,080 for 3 months).

The “A” did not complete section E-3 of 5C. The “A” may not have been notified of an award by the time of application (3-6-94) and therefore the “A” had not received any Federal, State, local or private disaster relief.

OVERALL SUMMARY

Of the 13 loans reviewed, six loans should not have been approved. The decision to approve the remaining seven loans appears to be within established guidelines and procedures.

In our effort to deliver assistance to disaster victims in a timely and effective manner, we acknowledge that oversights will occur which can be minor or significant. Lack of experience in processing procedures for newly hired personnel both loan officers and clerical support is evident. Some of the basic processing techniques were not adequately followed including: 1. Proper use of the chronlog whether because of lack of use to incomplete documentation of discussion with “A”, 2. Lack of understanding of a CRB; 3. Proper completion of LOR; 4. Determining repayment ability and credit worthiness; 5. General eligibility determination; and 6. File content and file order.

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