



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

**AUDIT-RELATED
MEMORANDUM REPORT**

Date: September 25, 1997

Number: 7-7-F-019-024

To: Richard Taylor, Director,
Preferred Lender Program (PLP) Loan Processing Center

Laura Brown, District Director
Atlanta District Office

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

Subject: Audit-Related Memorandum - SBA Guaranteed Loan
to {*FOIA deletion*}

As a part of the current audit of 7(a) Loan Processing, we reviewed a \$40,000 SBA guaranteed loan approved for {*FOIA deletion*} (borrower) by the {*FOIA deletion*} (lender). The loan was to finance \$28,000 of working capital and \$12,000 for a portion of the equity injection required for a companion 504 loan made by another lender. The total financing package was more than \$1.2 million and consisted of the following components:

Lender's conventional loan	\$ 590,960
504 program loan	376,000
Borrower's equity injection	241,740
Lender's 7(a) loan	<u>40,000</u>
Total	<u>\$1,248,700</u>

Title 13 Code of Federal Regulations (CFR), §120.910, states that proceeds from an SBA business loan cannot be used to fund the borrower's equity injection for an SBA 504 Program loan. The planned use of \$12,000 of the 7(a) loan proceeds for equity injection, therefore, would be prohibited.

- The SBA loan officer who approved the 7(a) loan stated that she was unaware of the intended use of the loan proceeds because the loan application was submitted under PLP processing procedures.

- The lender's loan officer stated that she was aware of the regulatory prohibition and that the use of the loan proceeds for equity injection was an oversight.
- The Chief, Finance Division, Atlanta District Office, stated that the documentation for the 504 Program loan did not disclose that a portion of the borrower's equity injection was to be obtained from 7(a) loan proceeds.

As of September 19, 1997, neither loan had been disbursed.

Recommendation

To ensure that SBA's rules and regulations are adhered to for both loans, we recommend that the:

1A. Director, PLP Loan Processing Center, reduce the approved amount of the 7(a) loan by \$12,000, and *{FOIA deletion.}*

1B. District Director, Atlanta District Office, obtain an explanation from the lender for the 504 loan on how the \$12,000 reduction in the 7(a) loan will affect the borrower's ability to meet the required equity injection.

District Office Response

A coordinated response was received from the Director, PLP Processing Center (PLP Center), the District Director, Atlanta District Office, and the lender. The response states that the lender was contacted and confirmed the facts in the report. According to the response, the commitment letter for the 7(a) loan had expired, and no Authorization and Loan Agreement had been executed. The lender was advised to send a cancellation letter to the PLP Center for the 7(a) loan.

The response also stated a change letter will be submitted to the District Office for the 504 loan due to multiple changes in the structure of the loan and other material changes to the original loan submission. A review will be made of all credit terms and conditions at that time. A copy of the response is included as Attachment 1.

Evaluation of SBA Management's Response

Management officials agreed with the draft report. The actions taken or planned are responsive to the recommendations.

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The finding included in this report is the conclusion of the Office of Inspector General's Auditing Division based upon the auditors' testing of the auditee's operations. The finding and recommendations are subject to review and implementation of corrective action by your office following existing Agency procedures for audit follow-up and resolution.

Please record your management decisions on the attached SBA Forms 1824, "Recommendation Action Sheet" and provide target dates for completion. We would appreciate receipt of these forms within 30 days.

This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without the permission of the Office of Inspector General.

Attachments

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