



U.S. Department of Agriculture  
Office of Inspector General  
Western Region  
Audit Report

Rural Development  
Lender Servicing of Business and Industry  
Guaranteed Loans – State of California  
Lender B

NOTICE – THIS REPORT RESTRICTED TO OFFICIAL USE

THIS REPORT IS PROVIDED TO PROGRAM OFFICIALS SOLELY FOR THEIR OFFICIAL USE. FURTHER DISTRIBUTION OR RELEASE OF THIS INFORMATION IS NOT AUTHORIZED.



**Report No.  
34601-5-SF  
June 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL  
Western Region - Audit  
75 Hawthorne Street, Suite 200  
San Francisco, California 94105  
TEL: 415-744-2851 FAX: 415-744-2871



DATE: June 11, 2001

REPLY TO  
ATTN OF: 34601-5-SF

TO: Devin G. Nunes  
State Director  
California State Office  
Rural Development

ATTN: Charles M. Clendenin  
Business and Cooperative Director  
Rural Business – Cooperative Service

SUBJECT: Lender Servicing of Business and Industry Guaranteed Loans  
State of California – Lender B

This report presents the results of our audit of lender B's servicing and administration of a Business and Industry (B&I) guaranteed loan made to Lakeview Lodging (Lakeview), a limited liability corporation. We performed this audit to determine if the lender properly serviced the B&I guaranteed loan and if loan proceeds were used as specified in the loan agreement. During the audit, nothing came to our attention that indicated reportable problems in these two areas.

## **BACKGROUND**

The Rural Business-Cooperative Service, an agency within the U.S. Department of Agriculture's Rural Development (RD) mission area, operates B&I loan programs that are intended to (a) finance business projects that create or retain jobs in rural areas and (b) finance projects in all segments of the economy. A B&I loan can either be a direct Government-funded loan or a loan made by another lender on which RD guarantees repayment in the event of a loss. Loan guarantees are typically provided by traditional lenders, such as commercial banks, and to a lesser extent, on loans made by other (nontraditional) lenders. Program regulations require that the lender take all servicing actions that a

prudent lender would perform in servicing its own portfolio of loans that are not guaranteed.

In November 1999, RD awarded an 80-percent Loan Note Guarantee to lender B covering a \$3.15 million loan to Lakeview for the purchase and renovation of the Tahoe Lakeshore Lodge & Spa located in South Lake Tahoe, California. Participating lenders are required to report the status of B&I guaranteed loans to RD every 6 months. According to the latest Guaranteed Loan Status Report, dated December 31, 2000, Lakeview was current on its payments to lender B.

## **OBJECTIVES**

Our objectives were to determine if (1) the lender properly serviced the B&I guaranteed loan by monitoring collateral and submitting required documents to the agency in a timely manner, and (2) loan proceeds were used as specified in the loan agreement.

## **SCOPE**

We performed this audit as part of a nationwide review of the B&I guaranteed loan program. California was selected based on the number of loans outstanding and the dollar value of those loans, the total delinquent amount, and the total loss payments made by RD to honor its guarantees. As of November 1, 2000, the RD California State Office had issued 142 loan note guarantees involving 135 different borrowers with 43 different lending institutions on loans totaling nearly \$220 million.

We judgmentally selected for review 8 of 135 borrowers who received a loan note guarantee. We reviewed the 8 borrower loan files considering factors such as (a) loan amount, (b) borrower's location, (c) type of industry, and (d) borrower's fiscal history to select a sample of two borrowers. We reviewed the servicing actions of the corresponding lenders for these two borrowers. Our review of the lender covered servicing actions in FY 2000. Fieldwork was conducted from February 2001 through May 2001. This audit presents the results of our review of Lender B. The review of lender A will be reported under audit no. 34601-3-SF.

The audit was conducted in accordance with government auditing standards.

## **METHODOLOGY**

To accomplish our objectives, we performed the following procedures:

- At the Rural Development California State Office, located in Davis, California, we reviewed Lakeview's files to obtain a historical perspective

of the case and to determine whether State office controls over the servicing of B&I guaranteed loans were adequate.

- At lender B, located in Auburn, California, we obtained information regarding the servicing actions taken by the lender and reviewed Lakeview's case file to ensure the loan was being serviced in accordance with program rules and regulations.
- We visited the Tahoe Lakeshore Lodge and Spa in South Lake Tahoe, California to review loan collateral.
- We interviewed Lakeview's CPA to determine if she prepared Lakeview's compiled financial statements.

### **AUDIT RESULTS**

During our audit, nothing came to our attention to indicate that the borrower did not use the loan proceeds as specified in the loan agreement and that the lender did not properly service the loan. Since we have no findings or recommendations to report, we will notify the Office of the Chief Financial Officer that no further action is required by RD.

We appreciate the assistance and cooperation of your staff during this review.

\S\

SAM W. CURRIE  
Regional Inspector General  
for Audit

