



Highlights of [GAO-06-605T](#), a testimony to the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The Small Business Administration's (SBA) purpose is to promote small business development and entrepreneurship through business financing, government contracting, and technical assistance programs. SBA's largest business financing program is its 7(a) program, which provides guarantees on loans made by private-sector lenders to small businesses that cannot obtain financing under reasonable terms and conditions from the private sector. In addition, SBA's Office of Disaster Assistance makes direct loans to households to repair or replace damaged homes and personal property and to businesses to help with physical damage and economic losses.

This testimony, which is based on a number of reports that GAO issued since 1998, discusses (1) changes in SBA's oversight of the 7(a) business loan program; (2) steps SBA has taken to improve its management of information technology, human capital, and financial reporting for business loans; and (3) SBA's administration of its disaster loan program.

[www.gao.gov/cgi-bin/getrpt?GAO-06-605T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-605T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

## SMALL BUSINESS ADMINISTRATION

### Improvements Made, but Loan Programs Face Ongoing Management Challenges

#### What GAO Found

Since the mid-1990s, when GAO found that SBA had virtually no oversight program for its 7(a) guaranteed loan program, SBA has, in response to GAO recommendations, established a program and developed some enhanced monitoring tools. The oversight program is led by its Office of Lender Oversight, which was established in 1999. Strong oversight of SBA's lending partners is needed to protect SBA from financial risk and to ensure that qualified borrowers get 7(a) loans. In addition to its bank lending partners, loans are made by Small Business Lending Companies (SBLC)—privately owned and managed, non-depository lending institutions that are licensed and regulated by SBA. Since SBLCs are not subject to safety and soundness oversight by depository institution regulators, SBA has developed such a program under a contract with the Farm Credit Administration. Over the years, SBA has implemented many GAO recommendations for lender oversight and continues to make improvements toward addressing others.

Since the late 1990s, SBA has experienced mixed success in addressing other management challenges that affect its ability to manage the 7(a) loan program. With respect to using information technology to monitor loans made by 7(a) lenders, between 1997 and 2002, SBA was unsuccessful in developing its own system to establish a risk management database as required by law. However, SBA awarded a contract in April 2003 to obtain loan monitoring services. Regarding SBA's most recent workforce transformation efforts begun in 2002, GAO found that SBA applied some key practices important to successful organizational change but overlooked aspects that emphasize transparency and communication. SBA has implemented some related GAO recommendations for improvements in those areas. SBA has also made good progress in response to GAO recommendations addressing financial management issues.

With respect to SBA's administration of its disaster loan program after the September 11, 2001, terrorist attacks, GAO found that SBA followed appropriate policies and procedures for disaster loan applications in providing approximately \$1 billion in loans to businesses and individuals in the disaster areas, and to businesses nationwide that suffered economic injury. GAO's preliminary findings from ongoing evaluations of SBA's response to the 2005 Gulf Coast hurricanes indicate that SBA's workforce and new loan processing system have been overwhelmed by the volume of loan applications. GAO identified three factors that have affected SBA's ability to provide a timely response to the Gulf Coast disaster victims: (1) the volume of loan applications far exceeded any previous disaster; (2) although SBA's new disaster loan processing system provides opportunities to streamline the loan origination process, it initially experienced numerous outages and slow response times in accessing information; and (3) SBA's planning efforts to address a disaster of this magnitude appear to have been inadequate.