



Highlights of [GAO-03-87](#), a report to the Ranking Minority Member, Committee on Small Business and Entrepreneurship, U.S. Senate

## Why GAO Did This Study

SBA's loan asset sales are being closely watched because similar sales are projected for other government agencies as a means of reducing loan assets and servicing costs. To assess the progress and effects of SBA's loan sales, GAO undertook this study to (1) describe the process for selling loans, (2) identify how lenders and borrowers have reacted to loan sales, (3) determine whether SBA is properly accounting for its loan sales and their subsequent impact on credit subsidy estimates, and (4) assess whether loan sales generated operational benefits for the agency. GAO did not determine whether SBA maximized proceeds from the loan sales.

## What GAO Recommends

We recommend that, before doing more loan asset sales, SBA correct the accounting and budgeting errors and misstatements. Also, the Inspector General, with SBA's independent auditors, should assess the impact of identified errors in the financial statements and determine whether audit opinions for fiscal years 2000 and 2001 financial statements need to be revised. We also recommend that SBA improve its tracking of borrower inquiries and complaints and analyze the benefits and other effects on agency operations of the sales. SBA generally agreed with our findings and recommendations but did not respond to the recommendation to analyze the operational effects of loan sales.

[www.gao.gov/cgi-bin/getrpt?GAO-03-87](http://www.gao.gov/cgi-bin/getrpt?GAO-03-87).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Davi M. D'Agostino or Linda M. Calbom, (202) 512-8678.

# SMALL BUSINESS ADMINISTRATION

## Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain

### What GAO Found

From August 1999 through January 2002, SBA held five loan asset sales, disposing of a total of \$4.4 billion in disaster assistance home and business loans (85 percent) and regular business loans (15 percent). SBA created a sales process that has attracted investors and responded to their concerns. Lenders who participate in the 7(a) business loan guaranty program were also satisfied with the sales as an option for disposing of their defaulted loans. SBA relies on borrower inquiries and complaints to determine whether purchasers of the loans are using prudent loan servicing practices, as required in the loan sale agreements. However, information on borrowers' reactions to loan sales is incomplete, because SBA does not have a comprehensive process to capture the inquiries and complaints it receives.

SBA incorrectly calculated the accounting losses on the loan sales and lacked reliable financial data to determine the overall financial impact of the sales. Further, because SBA did not analyze the effect of loan sales on its remaining portfolio, its reestimates of loan program costs for the budget and financial statements may contain significant errors. In addition, SBA could not explain significant declines in its loss allowance account for disaster loans. Until SBA corrects these errors and determines the cause of the precipitous decline in the loss allowance account, SBA's financial statements will likely be misstated, and the audit opinion on past financial statements may be incorrect. Further, the reliability of current and future subsidy cost estimates will remain unknown. These errors and the lack of key analyses also mean that congressional decisionmakers are not receiving accurate financial data to make informed decisions about SBA's budget and the level of appropriations the agency should receive.

Our analysis of the operational benefits from loan sales suggests that some benefits that SBA reported either have not yet materialized or were overstated. SBA conducted a limited analysis of the impact of loan sales on its loan servicing centers, showing that loan servicing volume had been reduced. However, loan sales had a much greater impact on disaster loan servicing than on business loan servicing. Therefore, how the sales will help SBA realign its workforce in the small business programs remains unclear.

It would be imprudent to continue SBA loan asset sales in the absence of reliable and complete information on the accounting and budgetary effects. A successful loan sales program is not solely about maximizing proceeds and attracting investors: it is also a means of improving an agency's ability to achieve its mission and to best serve the American people. Moreover, as OMB continues to encourage loan asset sales, it is important that agencies embarking on new loan asset sales programs have the capability to properly carry out and account for these activities.