AUDIT OF BORROWER ACCEPTANCE OF DISBURSEMENTS

Report Number: 07-20

Date Issued: April 17, 2007

U.S. Small Business Administration
Office Inspector General

Memorandum

To: Herbert L. Mitchell, Associate Administrator
Office of Disaster Assistance
Ex-6

Date: April 17, 2007

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Audit of Borrower Acceptance of Disbursements

This is the first in a series of reports resulting from our review of SBA's efforts to expedite loan disbursements during its *90-in-45 Campaign*. The campaign was initiated in the fall of 2006 to disburse funds on approximately 90,000 loans approved for Hurricanes Katrina, Rita, and Wilma within 45 days. We initiated the audit in response to an employee complaint that loans processed during the campaign were disbursed contrary to borrowers' wishes. The complainant stated that SBA pressured case managers to rapidly make disbursements to meet production goals and gave cash awards to teams with the greatest number of disbursements.

The objective of this audit was to determine if SBA disbursed loan proceeds contrary to borrowers' wishes. To assess this, we interviewed the complainant and officials from the Processing and Disbursment Center (PDC) in Fort Worth, Texas. We also interviewed three borrowers who the complainant identified as receiving disbursements contrary to their wishes and selected three judgmental and two statistical samples that resulted in our interviewing an additional 205 borrowers. We also reviewed entries in the Disaster Credit Management System (DCMS) to determine if case managers contacted borrowers prior to disbursing funds.

We conducted the audit from November 2006 through February 2007 in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States. A more detailed description of our audit scope and methodology is provided in Appendix I.

BACKGROUND

The Small Business Administration (SBA) provides direct disaster loans to help homeowners, renters, businesses and nonprofit organizations return to pre-disaster condition. SBA disaster loans are the primary form of Federal assistance for non farm, private sector disaster losses and are the only form of SBA assistance not limited to small businesses.

In 2005, Gulf Coast Hurricanes Katrina, Rita and Wilma caused more than \$118 billion in estimated property damage and, as of September 30, 2006, SBA approved more than 158,000 disaster loans totaling about \$10.6 billion to individuals and businesses that suffered losses from the Gulf Coast hurricanes. However, as of September 30, 2006, SBA had only disbursed \$3.1 billion, or 30 percent of the loans approved. Because rebuilding efforts had progressed slowly, questions arose about whether SBA's disbursement process was too slow. To reduce the backlog of loans, on October 2, 2006, SBA initiated the 90-in-45 Campaign. The campaign's name referred to the goal of disbursing funds on the backlog of 90,000 plus loans associated with Hurricanes Katrina, Rita, and Wilma within 45 days.

Key objectives of the *90-in-45 Campaign* were to:

- Accelerate contact with all recipients of approved, undisbursed, and inactive disaster loan files;

  Restructure the existing Loan Processing and Disbursement Center (PDC) in Fort Worth, Texas into five responsive, customer-centric, production teams;

- Focus on simplifying support services and removing barriers to readily assist the production teams in their efforts;

  Assign a defined and manageable portfolio to one person, a case manager, and his/her processing team; and

- Encourage, recognize, and reward employee performance.

As part of the campaign, performance goals were developed and awards were distributed to recognize and reward employee performance. Twice during the *90-in-45 Campaign*, the PDC made awards to teams that had the most disbursements. The PDC processes all disaster loans and uses an automated system, the DCMS, to provide real-time information and paperless processing of disaster loan applications. Generally, secured loans are disbursed in stages that correspond with borrowers' needs and how they have spent prior disbursements.

RESULTS IN BRIEF

Of the 208 borrowers, we found 7 instances where disbursements were made contrary to borrowers' wishes. In two instances, the borrowers informed us that disbursement checks were mailed without any prior notification. In the other five instances borrowers asked SBA not to disburse loan funds or to delay disbursements, but SBA disbursed the funds. Six of the borrowers returned the loan disbursements and the other borrower decided to keep the funds. While the number of instances we identified were small and do not reflect a widespread problem, *any* disbursements made contrary to borrower wishes is inappropriate as it financially encumbers the borrower and can impact his/her access to credit elsewhere.

In all cases where the borrower returned the checks, loan balances were appropriately reduced. We also found one example where a borrower stated that she was forced to make a decision within 30 minutes or the loan would be cancelled. In this case, the borrower decided to accept the loan. We plan to conduct additional work to determine whether borrowers were pressured into making on-the-spot decisions and if loans were unnecessarily cancelled.

According to PDC management, case managers were not required to contact borrowers prior to disbursing loans because disbursements are generally a consequence of the borrower submitting loan documents or receipts. However, we noted that in many cases SBA had not heard from the borrower in several months or had not received additional documents needed for disbursement. Contacting borrowers prior to the disbursement of disaster funds provides SBA a final opportunity to determine whether the borrower still has a financial need and eliminates the need for borrowers to return unwanted checks and SBA to adjust loan balances that are in error.

As part of the 90-in-45 Campaign, SBA established production goals to monitor employees' performance. Performance goals were based on a mathematical calculation of the number of loans that had to be processed to reach the 90,000 in 45-day goal, and not on an assessment of the time needed to reasonably handle the volume of loans. Therefore, there was no assurance that goals could be met without sacrificing customer service and adherence to SBA loan requirements. Further, because many case managers held temporary positions, production goals became an issue of job security. For example, we were told by a temporary case manager that most case managers were fearful that if they did not disburse enough loans, they would be replaced. While the goals were intended to get disaster funds in the hands of borrowers quicker, they may have inappropriately influenced case managers to disburse funds that borrowers did not want.

Twice during the *90-in-45 Campaign*, the center also gave cash awards to teams that made the largest number of disbursements. Using cash incentives based solely on the volume of disbursements can lead to hasty decisions to meet production goals with less attention paid to quality customer service and adherence to SBA legal requirements. Consequently, production standards should be based on realistic data and cash incentives associated with loan processing should also reward customer service and sound disbursement decisions.

On April 13, 2007, we provided SBA with our draft report for comment. On April 16, 2007, SBA provided us with their formal response, which is contained in its entirety in Appendix III. SBA generally concurred with the findings and facts as discussed in our report and concurred with our recommendations. Our recommendations and a summary of SBA's response can be found on page 7 of this report.

RESULTS

A Small Number of Loans Were Disbursed Contrary to Borrowers' Wishes

We reviewed 244 loans and contacted 208 borrowers[1] to determine if loan disbursements were made contrary to borrowers' wishes. Only one of the three borrowers referred to our office by the complainant received disbursements contrary to their wishes. In total, 7 borrowers stated they received loan disbursements totaling about $136,000 which they did not want at that time. While the number of instances we identified were small and do not reflect a widespread problem, *any* disbursements made contrary to borrower wishes is inappropriate as it financially encumbers the borrower and can impact his/her access to credit elsewhere.

Six borrowers returned the checks, and SBA reduced the loan balances accordingly. The other borrower decided to keep the disbursement. (Detailed borrower comments and a chronology of events are provided in Appendix II.) In two instances, the borrowers told us that disbursement checks were mailed without prior notification from SBA. For example, one borrower stated that no one called her before she received a $25,000 disbursement check in the mail. The borrower returned the funds to SBA and requested the loan balance be reduced.

[1] We did not interview borrowers for 36 loans because the loans were cancelled or fully disbursed prior to the start of the 90-in-45 campaign.

In the other five instances, borrowers asked SBA not to disburse loan funds or delay disbursement, but SBA ignored the borrowers' wishes and disbursed the funds. For example, on September 18, 2006, a borrower told SBA that she did not want the loan as she would be receiving a state grant. Despite this request, SBA disbursed $10,000 to the borrower on October 20, 2006, and contacted the borrower only after it was too late to stop issuance of the check. The borrower returned the $10,000 and cancelled the loan.

In April 2006, another borrower told SBA he only wanted enough money to pay off his mortgage and did not want the additional $40,000 disbursement for personal property. However, on October 10, 2006, SBA scheduled a full disbursement. Later that month, the borrower notified SBA he would be returning the $40,000 check.

We also found an instance where a borrower was pressured into making a decision on a loan. In this case, the borrower stated she was given 30 minutes to accept the loan or it would be cancelled. According to the SBA case manager, because the borrower was undecided, she contacted her team leader for guidance. The team leader instructed the case manager to disburse the loan or someone else would, and that the borrower could always return the check if unwanted. While the borrower agreed to ultimately accept the loan disbursement, both the borrower and case manager acknowledged the pressure exerted on the borrower to accept the disbursement. We plan to conduct additional work to determine whether borrowers were pressured into making on-the-spot decisions and if loans were unnecessarily cancelled.

We were told by center management that case managers were not required to contact borrowers prior to disbursements because disbursements are generally a consequence of the borrower submitting loan documents or receipts. However, we believe that SBA should have contacted the borrowers before disbursing funds during the campaign because in many cases SBA had neither heard from the borrower in several months nor received additional documents required for disbursement. Also, according to entries in DCMS made by case managers, many borrowers had previously indicated they were undecided or did not want additional disbursements.

We believe that contacting borrowers prior to disbursing disaster funds provides SBA a final opportunity to determine whether the borrower still has a financial need. It also prevents borrowers from having to return unwanted checks and SBA from having to adjust loan balances that are in error.

SBA Rewarded Teams for the Most Number of Disbursements

As part of the *90-in-45 Campaign*, SBA established daily production goals and distributed awards to recognize and reward employees who made the largest number of disbursements. For example, the standard set for the number of disbursements made by a case manager was five a day. Twice during the *90-in-45 Campaign*, the PDC made cash awards to teams that had the most disbursements. Where Team awards were issued, all team members including case managers, team attorneys and support staff were issued $100 cash awards. Individuals cited for highest overall disbursements (regardless of team performance) received $100 as well, apart from the Team awards. Other awards were issued as $50 spot awards for specific acts of excellent customer service or for going above and beyond what was expected to resolve an issue or assist a borrower. In total, these awards amounted to over $48,000.

We were told by PDC managers that performance goals were based on a mathematical calculation of the number of loans that had to be processed to reach the 90,000 in 45-day goal, and was not supported by baseline data on processing times for the various activities needed to coordinate a disbursement. This was because center roles and staffing were restructured during the campaign, and data on processing times under the old structure would not have been relevant to the center's current operations. While relevant baseline data may not have existed for measuring the reasonableness of goals established under the campaign, SBA also did not perform an analysis to determine whether the center could reasonably meet the production goals without sacrificing customer service and adherence to SBA loan requirements.

While the goals were intended to get disaster funds in the hands of borrowers quicker, they may have inappropriately influenced case managers to disburse funds that borrowers did not want. We found that because many case managers held temporary positions, production goals became an issue of job security. For example, we were told by a temporary case manager that most case managers were fearful that if they did not disburse enough loans, they would be replaced.

Although SBA officials told us they stopped the awards program in November 2006, we believe that goal-related financial incentives and undue pressure placed on case managers who feared losing their temporary positions contributed to disbursements being made contrary to borrowers' wishes. Using cash incentives based solely on the volume of disbursements can lead to hasty decisions to meet production goals with less attention paid to quality customer service and adherence to SBA legal requirements. Consequently, production standards should be based on realistic data and cash incentives associated with loan processing should also reward customer service and sound disbursement decisions.

RECOMMENDATIONS

We recommend that the Associate Administrator for Disaster Assistance:

1. Ensure that when addressing future disbursement backlogs where borrowers are undecided or have not been in recent contact, that an attempt to contact the borrower is made prior to disbursement to determine whether disaster funds are still needed. The loan file should also be documented in DCMS to that effect.

2. Ensure in future campaigns that performance goals and associated awards are based on reasonable time frames that consider customer service and legal requirements.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On April 13, 2007, we provided the SBA with our draft report for comment. On April 16, 2007, SBA provided us with their formal response which is contained in its entirety in Appendix III. SBA generally agreed with our facts and findings and we consider their comments to be responsive to our recommendations. SBA also provided additional comments on the details in the report.

SBA suggested that the wording for recommendation 2 be changed to ensure that in future campaigns, performance goals and associated awards be based on both numerical and quality standards. We still believe that any goals or awards should be based on customer service and legal requirements. Although the intent of the *90-in-45 Campaign* was to significantly reduce the backlog of undisbursed loans and get the needed funds into the hands of Gulf Coast disaster victims, our audit showed that sometimes disbursements were made to customers who did not want the funds or who wanted the disbursements delayed. Furthermore, it is essential that during any campaign, SBA continues to ensure that legal requirements are met.

SBA also took issue with the section heading, "Loans Were Disbursed Contrary to Borrowers' Wishes" because it may lead readers to conclude that there may be widespread problems. We agreed with SBA and revised the section heading.

SBA also stated that the consequence of issuing funds that a borrower does not want is inconvenient, at most, and that to correct and reverse a disbursement does not impair or financially impact the borrower beyond the act of returning the funds. However, until the borrower returns the unwanted funds, he/she is financially encumbered by the loan. For example, our discussions with the one borrower who decided to keep the funds showed that he wanted the disbursement one month later. He decided to accept the funds and pay interest for that month rather than to try to delay the disbursement and risk the loan being cancelled.

SBA further stated that production goals were not established to monitor employees' individual performance; and therefore, job security cannot be directly related to the campaign. However, we found that although individual performance standards were not changed, employees had the perception that if they did not meet campaign goals their jobs would be at risk. Many of the case managers held temporary appointments, and when interviewed, most case managers were fearful they would be replaced if they did not disburse enough loans.

SBA also stated there was no sliding scale of awards on teams going from highest disbursement to lowest. We adjusted our wording in the report to reflect SBA's differing awards. Finally, SBA stated that the position title "loan officer" should be changed to "case manager," and we revised the wording accordingly.

We appreciate the courtesies and cooperation of Office of Disaster Assistance representatives during this audit. If you have any questions concerning this report, please call me at (202) 205-Ex.2 or Susan Bader, Director, Disaster Programs Group at (202) 205- Ex.2

APPENDIX I. SCOPE AND METHODOLOGY

To assess the complaint, we interviewed the complainant, borrowers, and various SBA officials, including the PDC Director, Deputy Director, and Center Counsel. We also interviewed case managers, attorneys, paralegals, the Collateral Cashier, and employees located in the Check Order Department.

Our review consisted of tests from six different sets or samples of loans that were processed by the Fort Worth Processing and Disbursement Center during the *90-in-45 Campaign*, which extended from October 2, 2006, through November 4, 2006. The loans we reviewed are described in the table below:

Table 1. Loan Samples Tested

Tests Conducted	Number of Loans in Universe	Number of Loans Tested	Number of Borrowers that Received Unwanted Disbursements
Loans provided by the complainant	3	3	1
Loans that borrowers wanted either to cancel or were undecided about, that were identified in the *Audit of Loan Disbursements Following the 2005 Gulf Coast Hurricanes Katrina, Rita, and Wilma,* OIG Report No. 06-29.	47	47	0
U.S. Treasury checks on hand at the PDC for delivery to the borrower, title company, or closing attorney.	98	50	0
Judgmental sample of checks returned by borrowers to the PDC.	95	25*	5*
Statistical sample of checks returned by borrowers to the PDC.	95	45	1
Statistical sample of loans with existing loan modifications to cancel or reduce loans prior to the start of the *90-in-45 Campaign*, for which a disbursement was processed during the *90-in-45 Campaign*.	1,525	74	0
Total		**244**	7

*We reduced the judgmental sample by the 25 loans and 1 exception that were found in both the statistical and judgmental sample so that these loans would not be counted twice.

We did not project the results of either statistical sample because only one exception was noted in one sample, and none were noted in the other sample. We also reviewed SBA's electronic loan files in the Disaster Credit Management System (DCMS) for information regarding the loan chronology (which annotates SBA's contact with the borrower and the work that SBA does on the loan), disbursement information, and any modification information. In all six cases involving the return of checks by the borrower, we checked to see if the loan balance was appropriately reduced.

APPENDIX I. SCOPE AND METHODOLOGY

We also conducted telephone interviews with borrowers for all the samples except sample 2. For sample 2, we reviewed the electronic loan files in DCMS and found that 36 of the 47 loans were cancelled or fully disbursed prior to the start of the *90-in-45 Campaign*. Therefore, we interviewed the remaining 11 borrowers. Appendix II contains the results of our interviews with borrowers.

Our audit was performed from November 2006 through February 2007 in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States.

APPENDIX II. SUMMARY OF SEVEN LOAN DISBURSEMENTS MADE CONTRARY TO BORROWER WISHES

Loan Number	Amount Disbursed	Borrower Comments	Summary of Entries Found in SBA's DCMS Loan Files
Ex-2	$16,000	SBA called the borrower to inform him that a partial subsequent disbursement had been initiated. The borrower told SBA that he had previously requested that all subsequent disbursements be delayed until he was ready to move into his new residence. The SBA officer told the borrower that "it was too late to stop the disbursement."	July 21, 2006: Borrower requested that SBA disburse only $10,000. August 2, 2006: Borrower notified SBA that he would not need the rest of his loan until he was ready to move to his new home, and would contact SBA when this occurred. Oct 12, 2006: Initiated disbursement. Oct 25, 2006: Disbursement scheduled. Oct 31, 2006: SBA called borrower to inform him about the disbursement, but borrower requested the disbursement be stopped. Nov 3, 2006: SBA called borrower to say it was too late to stop the disbursement.
Ex-2	$25,000	The borrower stated that no one called her before she received the subsequent disbursement check in the mail. The borrower returned the funds to SBA and asked that her loan be reduced by the amount of the disbursement.	Oct 4, 2006: Initiated disbursement. Oct 5, 2006: Disbursement scheduled. Oct 12, 2006: Borrower called and was given the address for returning the disbursement check.

APPENDIX II. SUMMARY OF SEVEN LOAN DISBURSEMENTS MADE CONTRARY TO BORROWER WISHES

Loan Number	Amount Disbursed	Borrower Comments	Summary of Entries Found in SBA's DCMS Loan Files
Ex-2	$10,000	The borrower previously told SBA she did not want to receive any disbursements because she had been approved for the state grant program. SBA disregarded her request and mailed her an initial disbursement. Although she was notified by phone about the disbursement, it was too late to stop the disbursement that had already been scheduled. The borrower returned the funds to SBA and cancelled her loan.	Sept 18, 2006: Borrower returned phone call to SBA, informing SBA that she would be receiving a state grant. Oct 19, 2006: Initiated disbursement. Oct 20, 2006: Disbursement scheduled. Borrower identified as being a grant recipient of $48,033. Case Manager called borrower who told SBA that she was told by another SBA employee that her loan would be held for 6 months to find out if she received the state grant. Again borrower asks SBA to call her back in a week or two, while she finds out more details about the state grant. Oct 24, 2006: Another case manager called the borrower to explain that the grant would present a duplication of benefits issue. Borrower again asks that SBA not make a disbursement until she receives her state grant. Oct 25, 2006: State grant review completed. Later that day, borrower called SBA to say she received SBA's initial disbursement of $10,000. Since she didn't want the loan disbursement, she was told to return the check.
Ex-2	$25,000	The borrower stated that SBA had been "overzealous." Although the borrower was approved for an $83,100 loan, he only needed $25,000, which was the amount of his initial disbursement. He did not request any additional funds. When SBA called to inform him that an additional $25,000 had been scheduled for disbursement, he told SBA that he did not want it. He was told that when he received the disbursement check to return it to SBA and also submit his written request to reduce his loan amount.	Oct 5, 2006: Disbursement initiated and scheduled. Later that day, SBA called borrower to inform him about the subsequent disbursement. Borrower stated he wanted the loan reduced to the amount that was previously disbursed--$25,000. He was told it may be too late to stop the disbursement check. Oct 14, 2006: Borrower called and requested information on where to return the disbursement check.

APPENDIX II. SUMMARY OF SEVEN LOAN DISBURSEMENTS MADE CONTRARY TO BORROWER WISHES

Loan Number	Amount Disbursed	Borrower Comments	Summary of Entries Found in SBA's DCMS Loan Files
Ex-2	$40,000	Although the borrower was approved for $81,700, he only wanted $41,700 to refinance a mortgage. He previously informed SBA that he did not want the $40,000 for personal property. SBA disregarded his request and disbursed the entire $81,700. He returned the $40,000 to SBA and the loan was reduced by that amount.	April 10, 2006: Borrower called SBA and said that he only wanted enough money to pay off his mortgage. April 29, 2006: Borrower called and said that he only wanted to refinance mortgage. July 5, 2006: Case manager called borrower and borrower again requested a refinance loan. July 29, 2006: Borrower returned call to SBA, stating that he only wanted the amount needed to pay off his mortgage. Sept 8, 2006: SBA left a message requesting escrow agent information Sept 9, 2006: Borrower called to provide escrow agent information. Oct 10, 2006: Initiated and scheduled full disbursement. Oct 25, 2006: Borrower called SBA, and stated he did not want the $40,000 disbursement for personal property and that the disbursement check would be returned.

APPENDIX II. SUMMARY OF SEVEN LOAN DISBURSEMENTS MADE CONTRARY TO BORROWER WISHES

Loan Number	Amount Disbursed	Borrower Comments	Summary of Entries Found in SBA's DCMS Loan Files
Ex-2	$10,000	The borrower had previously requested that her interest rate be lowered and did not want her loan disbursed until the interest rate request was approved. However, an initial disbursement of $10,000 was made by SBA. The borrower stated that no one called her before she received the disbursement check in the mail. The borrower returned the funds to SBA. Since SBA did not reduce her interest rate, she requested to cancel the loan.	May 5, 2006: Borrower called SBA to find out terms of her loan. June 19, 2006: Disbursement initiated. June 20, 2006: Entry made to indicate that borrower will be contacted about an electronic funds transfer. Disbursement scheduled. June 23, 2006: Borrower called SBA requesting lower interest rate. She was told to write a letter. June 24, 2006: SBA received June 16, 2006 letter from borrower requesting a lower interest rate. June 26, 2006: SBA received another letter from borrower requesting a lower interest rate. July 14, 2006: Borrower called SBA to say she received initial disbursement check for $10,000, but does not want it unless SBA lowers the interest rate. Oct 7, 2006: Borrower called SBA to say she is returning the disbursement check and loan cancellation form. Oct 14, 2006: Check received.

APPENDIX II. SUMMARY OF SEVEN LOAN DISBURSEMENTS MADE CONTRARY TO BORROWER WISHES

Loan Number	Amount Disbursed	Borrower Comments	Summary of Entries Found in SBA's DCMS Loan Files
Ex-2	$10,392	The borrower said when SBA called to inform her about the initial $10,392 disbursement, she was upset that it would have to be repaid to FEMA. She requested, "some time to think it over." However, she received the check in the mail with FEMA as the co-payee within a week of the phone call to SBA. She kept the check for about 3 months, thinking that as long as she didn't endorse and return the check, she hadn't accepted the loan. She later decided to cancel the loan. Although, SBA's electronic file annotated the phone call with the borrower, it did not indicate that the borrower asked for time to decide whether or not she would accept the loan.	June 22, 2006: Disbursement initiated and scheduled. Later that day, SBA spoke with the borrower and provided information on FEMA grant repayment options. June 27, 2006: SBA sent FEMA check via Fed Ex to borrower for borrower's endorsement. Sept 27, 2006: Borrower called SBA to request cancellation of the loan. Oct 16, 2006: Check received.

APPENDIX III. AGENCY COMMENTS

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Date: April 17, 2007

To: Debra S. Ritt
Assistance Inspector General for Auditing

From: Herbert L. Mitchell, Associate Administrator
Office of Disaster Assistance

Subject: Draft Report on the Review of Borrower Acceptance of Disbursements
Project No. 7404

The above mentioned report made two recommendations with respect to disaster loan disbursements.

Recommendation 1

Ensure that when addressing future disbursement backlogs where borrowers are undecided or have not been in recent contact, that an attempt to contact the borrower is made prior to the disbursement to determine whether disaster funds are still needed. The loan file should also be documented in DCMS to that effect.

Response 1:

We agree with this recommendation.

Recommendation 2:

Ensure in the future campaigns that performance goals and associated awards are based on reasonable time frames that consider customer service and legal requirements.

Response 2:

We generally agree with this recommendation but suggest that it be changed to read as follows: "Ensure in the future campaigns that performance goals and associated awards be based on both numerical and quality standards".

Additional Comments:

The subtitle on page 4 – "Loans Were Disbursed Contrary to Borrowers' Wishes" is not reflective of the findings and may lead readers of the report to conclude that there may be widespread problems which is exactly opposite of your findings. I suggest that this subtitle be changed to – "A Small Number of Loans Were Disbursed Prior to Contacting the Borrower".

APPENDIX III. AGENCY COMMENTS

There was no sliding scale of awards on teams going from highest disbursement to lowest as the report recites on page 5. Where Team awards were issued, all team members including case managers, team attorneys and support staff were issued $100 cash awards. Individuals cited for highest overall disbursements (regardless of team performance) received $100 as well, apart from the Team awards. Other awards of $50 were issued as spot awards for specific acts of excellent customer service or otherwise going above and beyond in a specific situation to resolve an issue or assist a borrower.

The report states that the number of instances you identified were small and do not reflect a widespread problem however the report states *any* disbursements made contrary to borrower wishes is inappropriate as it financially encumber the borrower and can impact his/her access to credit elsewhere. The report does acknowledge that the findings do not establish a pattern of intentional or widespread efforts to ignore those wishes. The consequence of issuing these funds to a borrower that needs to repair or replace disaster damage property is inconvenient at most. To correct and reverse a disbursement does not impair or financially impact the borrower beyond the act of returning the funds. Additionally, each borrower signed a Loan Authorization and Agreement that contains a disbursement paragraph that states, "Disbursements will be made by and at the discretion of SBA Counsel, in accordance with this Loan Authorization and Agreement and the general requirements of SBA." I agree that contacting each and every borrower prior to a disbursement would create the most favorable customer service condition, however in responding to a catastrophic event SBA made disbursements whenever possible, assuming this was in the best interest of the borrower and their recovery efforts.

As part of the 90-in-45 Campaign, SBA's did not establish production goals to monitor employees' performance as stated in the report. SBA established production goals to increase the number of disbursements made to borrowers. SBA did not change, modify or alter any critical elements on any employees' Personal Business Commitment Plan (PBC) to equate the volume of disbursements completed with their agreed upon critical elements. Since the Campaign's production goals were not relevant to the employee's PBC rating, job security can not be directly related to the Campaign.

The use of the position title "loan officer" is used to identify the persons taking the disbursement actions in this draft report. Since the inception of the 90-in-45 campaign and continuing, disbursement decisions are made by case managers. The majority of case managers, in terms of position titles, are attorneys and paralegal specialists. There were some loan officers holding case manager assignments, but for accuracy, clarity and consistency purposes, each use of the phrase "loan officer" should be changed to "case manager".

I appreciate the opportunity provided to respond to this draft audit report. If you have any questions concerning this response please call me at 202-205-Ex-2 or James Rivera at 202-619 Ex-2

Ex-6

Herbert L. Mitchell
Associate Administrator
for Disaster Assistance