



US SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

AUDIT REPORT
Issue Date: July 7, 1997
Number: 7-5-F-002-019

To: Bernard Kulik, Associate Administrator for Disaster Assistance

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

Subject: The Credit Alert Interactive Voice Response System

Background

The Credit Alert Interactive Voice Response System (CAIVRS) is an automated database, maintained by the Department of Housing and Urban Development, that identifies individuals who are delinquent on Federal debts. Its purpose is to improve credit management on a government-wide basis by preventing delinquent Federal debtors from receiving additional Federal credit. As of October 1996, it contained over two million delinquency records. OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, states that, as part of the loan applicant screening process, agencies shall use CAIVRS to identify Federal delinquencies.

Although it is SBA's general policy to deny loans to individuals who are delinquent on other Federal debts, the Office of Disaster Assistance (ODA) does not use CAIVRS. ODA stated it does not use the system because 1) CAIVRS duplicates information already available in the credit bureau reports used to process disaster loans, 2) it is difficult to verify delinquency information with the reporting agencies, and 3) given the urgent nature of disaster loan processing, using it would be an unnecessary burden of time and expense. In addition, under the Debt Collection Improvement Act of 1996, disaster loans are exempt from the prohibition of extending credit to a person who is delinquent on other Federal debt.

Objective

The objective of the audit was to determine whether it would be beneficial for ODA to use CAIVRS to identify disaster assistance applicants who are delinquent on other Federal debts.

Scope and Methodology

We ran a computer match between CAIVRS and 44,047 disaster loans approved in Fiscal Year 1995 to determine how many loans were made to individuals who were delinquent on other Federal debts. From a population of 192 loans with CAIVRS records, we randomly selected 30 to 1) verify the delinquency with the reporting agency, 2) determine if the delinquency was listed on the credit bureau report used to process the loan, and 3) determine whether the applicant disclosed the other Federal debt on the SBA loan application.

We also tested CAIVRS on 600 disaster loan applications that were in process during April and May 1997, to evaluate its effectiveness as a screening tool. Specifically, we accessed the system, entered the applicants' Social Security Numbers, verified the matches with the reporting agencies, and reviewed the applicants' credit bureau reports. The audit was conducted in accordance with Government Auditing Standards. Fieldwork was performed in Washington, D.C.; Atlanta, Georgia; and Dallas, Texas; and was completed in May 1997.

Results

It does not appear that using CAIVRS to identify delinquent Federal debtors would provide significant benefit in disaster loan processing, particularly now that agencies are required to report all delinquencies to commercial credit bureaus. The computer match on FY 1995 loans showed a marginal benefit – by identifying 192 loans with CAIVRS records that could have precluded loan approval. The subsequent test of 600 applications in process, however, showed that most of the debts identified by CAIVRS were also identified on the applicants' credit bureau reports. Using CAIVRS, therefore, would have added to loan processing time, but would have provided little benefit in loan processing quality or efficiency. We did note a potential for improvement in the disclosure of delinquency information on the disaster assistance application forms, and the Associate Administrator for Disaster Assistance agreed to modify the forms.

Computer Match

The test of FY 1995 loans resulted in matches (i.e., borrowers identified as delinquent on other Federal debt prior to approval of the SBA loan) on 192 loans, with approved amounts totaling \$5.6 million. These loans represented 0.4 percent of the 44,047 FY 95 disaster loans tested.

For each match, CAIVRS provided the name of the reporting agency and a telephone number to call for information. Our efforts to obtain additional information from the reporting agencies confirmed ODA's position that this can be a difficult and labor intensive process. In some cases, information was readily available. In other cases, however, either the call was not answered, a recording machine answered, or the individual who answered was unfamiliar with CAIVRS.

Of the 30 match loans we sampled, 11 (37 percent) were invalid. In seven cases, the other agency records were incorrect, and in four cases, SBA's records were incorrect. Extrapolating the rate of

invalid matches to the 192 loans with CAIVRS records indicated that during FY 1995, ODA approved 122 loans, with gross approval amounts totaling \$3.6 million and disbursed amounts of \$2.4 million (as of May 1997), to individuals who were delinquent on other Federal debts.

For the 19 loans with valid matches, only one credit bureau report identified the Federal delinquency. The Debt Collection Improvement Act of 1996, however, now requires agencies to report all delinquencies to commercial credit bureaus, so in the future these reports should provide more comprehensive information.

Review of the loan applications for the valid matches showed that, except for one case, applicants did not disclose the Federal delinquency. Although the application forms required disclosure of Federal loans, the forms did not specifically address Federal guarantees, such as student loans or FHA mortgages. Therefore, applicants may not have been aware of the need to disclose this type of debt. In addition, the business loan application form did not specifically address delinquency on Federal debts.

Performance of Loans with CAIVRS Matches

As of May 1997, the status of the 192 loans with CAIVRS records was as follows:

Loan Status	Count	Approval Amount	Disbursed Amount	Balance Due	Charged Off Amount
Current	113	\$3,809,100	\$3,196,618	\$2,936,543	0
Canceled	20	1,103,900	0	0	0
Delinquent	15	306,100	293,300	282,089	0
Charged Off	15	99,600	72,500	0	\$71,021
In Liquidation	13	182,100	168,500	162,482	0
Paid In Full	7	59,800	58,100	0	0
Deferred	5	48,600	48,600	39,705	0
Past Due	4	24,100	24,100	21,030	0
Total	192	\$5,633,300	\$3,861,718	\$3,441,849	\$71,021

We noted that 52 of the 192 match loans (27 percent), with disbursements totaling \$607,000, were non-performing, i.e., delinquent, past due, charged off, in liquidation or deferred, as of May 1997. In contrast, only 7 percent of the total SBA portfolio of FY 1995 disaster loans was non-performing. Loans to borrowers with CAIVRS records were, therefore, almost four times as likely to be non-performing as loans to borrowers without such records.

Using CAIVRS to Screen Applicants

To evaluate CAIVRS' effectiveness as a screening tool, we tested 600 recent disaster assistance applications involving 945 applicants. On average, this process required about 2 hours per 100 applications. Ten matches, associated with nine applications, resulted – about 1½ percent of the applications and 1 percent of the applicants. Four of the matches involved FHA delinquencies, and six were for Department of Education loans. These agencies confirmed that all of the matches involved the SBA applicants.

None of the nine applications resulted in a loan. ODA used its Accelerated Processing Decline procedure to decline four of the applications while in docketing and declined another four during subsequent processing, and one application was withdrawn. It appears that the Debt Collection Improvement of 1996 has improved agencies' reporting to credit bureaus, because eight of the ten debts (four FHA and four DoEd) identified by CAIVRS were listed on the applicants' credit bureau reports. The applications relating to the other two debts were declined for other credit reasons. Using CAIVRS would have added about 12 staff hours to the processing time of the 600 applications tested, but it would not have added value in terms of improved decision making or processing efficiency.

Conclusion

Overall, we concluded that currently there is not a clear benefit for ODA to use CAIVRS to identify delinquent Federal debtors, particularly given the urgency associated with disaster loan processing. Based on the test of recent applications, using CAIVRS would create an additional processing step, with little or no value added. This indicates significant improvement by agencies in reporting Federal debts to credit bureaus. With the strengthened credit bureau reporting requirements of the Debt Collection Improvement Act, ODA should be able to identify delinquent Federal debtors using its current procedures. As note above, the application forms could be clarified regarding delinquent Federal debt.

Recommendations

In our draft report we recommended that the Associate Administrator for Disaster Assistance take the following actions:

1. Revise the disaster assistance application forms to specify that disclosure of all forms of Federal credit, including loan guarantees, is required.
2. Revise the business loan application form to address delinquency on Federal debts.

Management Response

The Associate Administrator for Disaster Assistance advised that he had changed one application form and would make the recommended changes to the other form.

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