



**US SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
Washington, DC 20416**

**AUDIT-RELATED  
MEMORANDUM REPORT**

**Issue Date: October 31, 1997**

**Number: 8-7-F-006-001**

**To:** Laura Brown, District Director  
Atlanta District Office

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

**Subject:** Audit Related Memorandum-SBA Guaranteed Loans  
Originated by the First National Bank of Coffee  
County, Georgia

As a part of a recently completed audit of Low Documentation (LowDoc) Loans, we reviewed a loan made to (*FOIA deletion*) by the First National Bank of Coffee County (Bank). The Bank agreed that the loan officer was suspected of making false statements when processing this and other loans. While appropriate action was taken on this loan, other loans processed by the same loan officer should be carefully analyzed if they fail

In (*FOIA deletion*), the borrower applied for a (*FOIA deletion*) working capital loan (*FOIA deletion*). The business had been in operation for only 10 months and, therefore, repayment ability was based on projections. The lender reported that the borrower's personal credit showed an excellent payment history and that the borrower had been paying as agreed on debt owed to the lender.

Our review disclosed that the lender relied on a credit report that was one year old and that, at the application date, the borrower had missed four payments totaling \$4,000 for the debt owed to the lender. The lender did not disclose to SBA that the borrower was delinquent. The lender's misrepresentations resulted in SBA's approving a loan to a borrower whose credit history had not been adequately reviewed and who was delinquent on current debt.

In March 1997, the Bank informed SBA that the loan officer had misrepresented information in the processing of two other LowDoc loans. Both borrowers defaulted less than

12 months after loan approval. The Bank subsequently released SBA from the guarantee for the two loans.

The Bank's portfolio contains another three SBA guaranteed loans that were originated by the above mentioned loan officer. The loan numbers include (*FOIA deletion*), (*FOIA deletion*), and (*FOIA deletion*). The Bank has verbally agreed to cooperate with SBA on any future failures of these loans. The Atlanta District Office stated that they would perform their normal pre-purchase review for defaulted loans. They further stated that if the OIG brought these loans to their attention they would review them more carefully than usual. We believe the normal pre-purchase review may not be sufficient to identify misrepresentations made by this loan officer and, therefore, recommend that the District Director, Atlanta District Office, take the following actions:

1.A Require a detailed review of the borrower's financial records for each of the remaining loans processed by the suspected loan officer prior to honoring the guarantee.

1.B Place a copy of this report in the files of each of the three loans or otherwise annotate the files so that SBA personnel will be aware of the potential problem.

### **Management's Response**

The District Director, Atlanta District Office agreed with the findings and conclusions presented in the report (see Attachment 1).

### **Evaluation of Management's Response**

The District Director's response indicated corrective actions would be taken.

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The finding included in this report is the conclusion of the Office of Inspector General's Auditing Division based on testing of the auditee's operation. The finding and recommendations are subject to review, management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.

Please record your management decisions on the attached SBA Forms 1824, "Recommendation Action Sheet," and provide target dates for completion. We would appreciate receipt of these forms within 30 days.

This report may contain proprietary information subject to the provisions of 19 USC 1905 and must not be released to the public or another agency without the permission of the Office of Inspector General.

Attachments

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AUDITING DIVISION**

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