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GAO

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Highlights

Highlights of GAO-03-90, a report to the Ranking Minority Member, Committee on Small Business and Entrepreneurship, United States Senate

Why GAO Did This Study

The Small Business Administration (SBA) has increased its reliance on private lenders to provide small businesses with access to credit. The 7(a) program is SBA's largest business loan program, and SBA has established a preferred lender program (PLP) in which eligible lenders make 7(a) loans without prior SBA approval. SBA guaranteed $9.9 billion in 7(a) loans in 2001. Because lenders are exercising greater autonomy in making 7(a) loans, effective lender oversight is essential to SBA's success in achieving its mission. GAO evaluated SBA's 7(a) lender oversight and reviewed its organizational alignment for conducting PLP and Small Business Lending Company (SBLC) oversight.

What GAO Recommends

SBA should

- incorporate strategies into its review process to adequately measure the financial risk lenders pose to SBA and develop specific criteria for the "credit elsewhere" standard;
- provide policies and procedures for enforcement actions against preferred lenders and SBLCs; and
- separate the lender oversight function from the Office of Capital Access (OCA) and provide it with clear authority and guidance.

SBA disagreed with part or all of two recommendations and is considering issues raised in others.

www.gao.gov/cgi-bin/getrpt?GAO-03-90.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Davi D'Agostino, Director, FMCI, on (202) 512-8678, or d'agostinod@gao.gov.

SMALL BUSINESS ADMINISTRATION

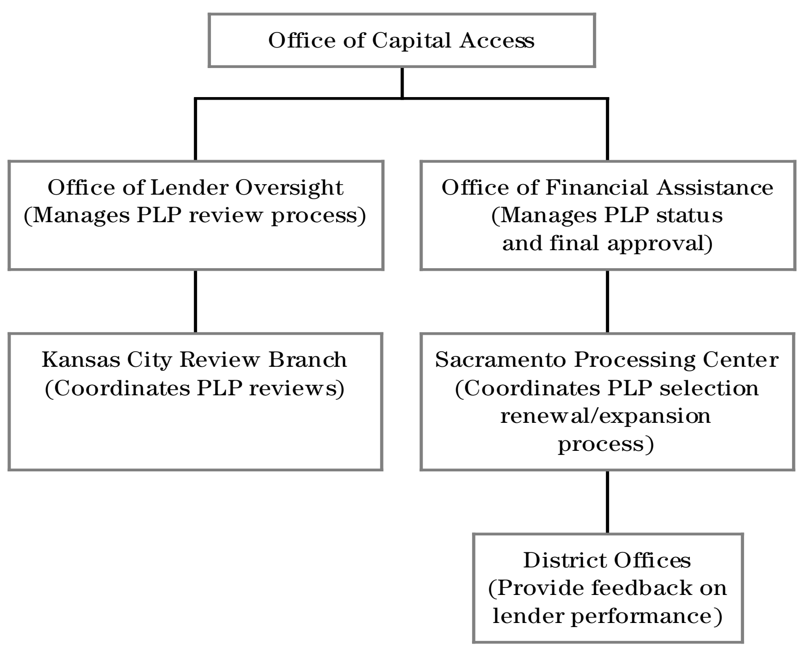
Progress Made but Improvements Needed in Lender Oversight

What GAO Found

SBA has made progress in developing its lender oversight program, but conducts only a cursory review of lenders' processes rather than a qualitative assessment of their decisions with regard to borrowers' creditworthiness and eligibility. The "credit elsewhere" standard—a test to determine whether the borrower can obtain credit without the SBA guarantee—is broad, making a meaningful assessment of lenders' decisions difficult. Although SBA has identified appropriate elements for an effective lender oversight program, it has been slow to incorporate all of the elements. For example, SBA does not adequately measure the financial risk PLP lenders pose to its portfolio and has not developed enforcement policies and procedures. SBA has also been slow to implement program improvements for its oversight of SBLCs, for which it has additional safety and soundness regulatory authority.

SBA's lender oversight function does not have the organizational independence or resources necessary to accomplish its goals. Two offices perform lender oversight from within OCA, whose other responsibilities include lending program promotion and management, thus presenting a possible conflict. Additionally, split responsibilities within OCA, and limited resources, have impeded SBA's ability to complete certain oversight responsibilities, such as the completion of review reports, which could result in increased risk to its portfolio.

Preferred Lender Oversight Responsibilities within OCA



Source: GAO analysis of SBA's structure.