

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's 504 Loan Liquidation Process



Verification Inspection

Report 25-02

October 17, 2024



Make a Difference

To report fraud, waste, or mismanagement, contact the U.S. Small Business Administration's Office of Inspector General Hotline at <https://www.sba.gov/oig/hotline>. You can also write to the U.S. Small Business Administration, Office of Inspector General, 409 Third Street, SW (5th Floor), Washington, DC 20416. In accordance with 5 U.S. Code § 407(b) and 5 U.S. Code § 420(b)(2)(B), confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.

NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments will be appended to this report and posted on our public website.



**OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

MEMORANDUM

Date: October 17, 2024

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware 
Inspector General

Subject: Verification Inspection of SBA's 504 Loan Liquidation Process (Report 25-02)

This report presents the results of our verification inspection of the U.S. Small Business Administration's (SBA) corrective actions for the two recommendations from the Office of Inspector General (OIG) audit report *SBA's 504 Loan Liquidation Process* (Report 16-23). A verification inspection is a review that focuses on the implementation of closed recommendations from prior OIG reports.

We determined that SBA fully implemented recommendations 1 and 2 in OIG Report 16-23.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Stephen Chow, Director, Audit Operations, at (202) 235-5465, or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Dilawar Syed, Deputy Administrator
Arthur Plews, Chief of Staff
Isabelle James, Deputy Chief of Staff
Kathryn M. Frost, Associate Administrator, Office of Capital Access
Therese Meers, General Counsel, Office of General Counsel
Anna M. Calcagno, Director, Office of Program Performance, Analysis, and Evaluation
Michael A. Simmons, Attorney Advisor, Office of General Counsel
Tonia Butler, Director, Office of Internal Controls

Background

The Small Business Administration's (SBA) 504 Certified Development Company (CDC) Loan Program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, machinery, and other fixed assets. CDCs are SBA-approved economic development organizations responsible for packaging, closing, and servicing loans. The loans are funded through a variety of sources, including private sector lenders, proceeds from selling SBA-guaranteed debentures, and borrower equity investments.¹ A third-party lender must provide at least 50 percent of the project's financing, while the CDC provides up to 40 percent through a 100 percent SBA-guaranteed debenture and the applicant provides at least 10 percent.

SBA is responsible for liquidating the assets in the event of a default on the loan.² Specifically, SBA's Fresno and Little Rock Commercial Loan Service Centers (CLSC) are responsible for managing 504 loan liquidation operations.

SBA's Office of Inspector General (OIG) issued Management Advisory Report 16-23, *Audit of SBA's 504 Loan Liquidation Process*, on September 30, 2016. The audit objectives were to determine the extent to which SBA (1) effectively managed and monitored the 504 loan liquidation portfolio and (2) maximized recovery when liquidating 504 loans. Although OIG found SBA had established effective policies and procedures governing its 504 liquidation operations and had experienced staff, it also identified the following areas of concern:

- SBA had not developed a formal training plan for CLSC staff in accordance with established goals and procedures.
- SBA did not provide adequate training to its 504 loan liquidation personnel to ensure they maintained required skills.
- SBA information systems used by each CLSC were developed independently and not used uniformly.
- SBA's internal policies and procedures for liquidating 504 loans were unique and applied inconsistently at CLCSs.
- SBA's CLCS operations manuals did not have consistent procedures.

¹ A bond backed by the general credit of the issuer rather than a specific lien on particular assets.

² Liquidation is the conversion of the assets of a firm into cash, often just before the firm goes out of business. The result of the liquidation process is settling the affairs of a business by disposing of its assets and liabilities.

Based on these findings, OIG made two recommendations. We initiated this verification inspection to follow up on the two recommendations from Report Number 16-23 and determine whether SBA’s corrective actions were still in place and effective.

Summary of Results

SBA effectively implemented corrective actions for both recommendations, specifically:

- Recommendation 1: SBA established a training plan and holds training courses on 504 loan liquidations for both CLSCs; and
- Recommendation 2: SBA continues to conduct reviews of CLSC internal guidance, systems, and practices to ensure that 504 loans are liquidated consistently nationwide.

Report Number 16-23: Audit of SBA’s 504 Loan Liquidation Process

The following information details the original findings, recommendations, and SBA’s corrective actions for recommendations 1 and 2.

Recommendation 1

OIG Finding	OIG Recommendation	SBA Corrective Actions
SBA had not developed a formal training plan to ensure CLSC personnel received adequate training on 504 loan liquidations to maintain required skills.	Develop and implement a comprehensive training plan that ensures continuity of expertise and maximized recoveries for SBA 504 loan liquidation activities.	OIG closed this recommendation on September 24, 2017 because SBA developed and implemented a comprehensive strategic training plan on 504 loan liquidations for CLSC personnel.

Inspection Result

We verified that SBA implemented a joint training plan for fiscal years 2024 and 2025 that included scheduled 504 loan liquidations. We also confirmed that 504 loan liquidation training occurred during the current fiscal year for both CLSCs. We further verified that the training occurred by reviewing the relevant training attendance sheets of both CLSCs.

SBA’s corrective actions to address recommendation 1 were fully implemented and operating as intended.

Recommendation Number 2

OIG Finding	OIG Recommendation	SBA Corrective Actions
The internal guidance, systems, and practices for liquidating 504 loans were not consistent nationwide.	Review CLSC internal guidance, systems, and practices to ensure that 504 loans are liquidated consistently nationwide.	OIG closed this recommendation on December 19, 2017 because SBA conducted the recommended review, revised each CLSC internal desk manual, and implemented quarterly cross-center training sessions to ensure the consistent liquidation of 504 loans.

Inspection Result

We verified that SBA continued to conduct reviews and perform procedures to ensure that 504 loans were liquidated consistently nationwide. We found that both CLCSs revised or were in the process of revising their internal desk manuals to ensure that each CLCS applied the same procedures. SBA personnel took several actions to ensure the 504 loan desk manuals were reviewed and updated in a timely manner, including training in "real time" as issues arose, peer-to-peer reviews via small groups, and conference calls and emails.

We also reviewed the most recent annual training plan to ensure that the CLSCs continued providing quarterly cross-center trainings and reviewed SBA’s listing of 11 systems and practices used to ensure that 504 loans were consistently liquidated nationwide. Based on our review, we determined that the systems and practices were reasonable to ensure that 504 loans were consistently liquidated.

SBA’s corrective actions to address recommendation 2 were fully implemented and operating as intended.

Scope and Methodology

The scope of this verification inspection included a review of two recommendations made in SBA OIG Report 16-23, *Audit of SBA's 504 Loan Liquidation Process*. These recommendations were previously closed based on evidence SBA provided to OIG implementing corrective actions, which addressed the issues identified in the audit. For this verification inspection, we reviewed SBA's documentation and justification of the corrective actions taken to close the two recommendations.

Our objective was to determine whether SBA's corrective actions on these two recommendations were still in place and effective. To answer our objective, we reviewed desk manuals, CLSC internal guidance, the joint CLSC training plan, and attendance sheets listing personnel who attended past training sessions. Additionally, we reviewed the reasonableness of SBA's 11 systems and practices to ensure 504 loans were consistently liquidated. We also interviewed SBA personnel, reviewed SBA CLSC training plans, and corresponded with program officials to understand the process for ensuring that policy manuals for both CLSCs were updated and consistent to help ensure that personnel liquidate 504 loans consistently nationwide.

We performed this review in accordance with the Council on Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require we plan and perform a review to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objective.