

Payment Integrity Scorecard

Program or Activity

7(a) Loan Guarantees Approvals

Reporting Period

Q3 2023

FY 2022 Overpayment Amount (\$M)*

\$298

*Estimate based a sampling time frame starting 4/2021 and ending 3/2022



SBA

7(a) Loan Guarantees Approvals

Brief Program Description & summary of overpayment causes and barriers to prevention:

The SBA offers government guaranties on loans (up to \$5 million) made by lenders to help expand access to capital for business owners who face challenges getting approved for financing. The 7(a) Loan program is the SBA's most common loan program. The SBA guaranties a portion of 7(a) loans made and administered by commercial lending institutions. Approximately 80 percent of 7(a) loans are approved by Lenders under their delegated authority. Loans can be guaranteed for a variety of general business purposes, including short- and long-term working capital, capital to refinance current business debt, and capital for specific business expenditures.

**Historical Payment Rate and Amount (\$M)
(Overpayment as Percentage of Total Outlays)**



Discussion of Actions Taken in the Preceding Quarter and Actions Planned in the Following Quarter to Prevent Overpayments

The detection and remediation of improper payments is a priority for the Agency. SBA monitors and reviews for improper payments and implements improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments. All improper payments identified have been resolved through recommendations to reduce or cancel the loan guaranty and/or referral to other offices. Corrective actions were generally completed without having to refer the loan for further review. To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and to prevent recurrence. Plans for improvement include the following: 1. Collaborating with the Office of Credit Risk Management (OCRM) to inform the office of specific lender deficiencies for further monitoring and potential incorporation into Risk Based Reviews; 2. Collaborating with the Office of Financial Assistance (OFA) to inform the office of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and 3. External training for lenders on policy requirements governing eligibility, and appropriate loan structure.

Accomplishments in Reducing Overpayment

Date

1	Corrective actions for specific loans are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action.	Jun-23
2	OFPO management provides oversight to ensure milestones are met. All improper payments have been resolved through recommendations to reduce or cancel the loan guaranty and/ or referral to other offices.	Jun-23
3	The SBA has achieved a reduction in the improper payment rate. The percent improper payments for Fiscal Year 2021 was 2.03%. The percent improper payments for Fiscal Year 2022 was 1.00%. This is a significant reduction in total improper payments.	Jun-23

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Goals towards Reducing Overpayments	Status	ECD	Recovery Method	Brief Description of Plans to Recover Overpayments	Brief Description of Actions Taken to Recover Overpayments
1 To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed. The Office of Financial Program Operations (OFPO) will share the loan level and lender deficiencies identified during the reviews with the OCRM and the OFA and will continue its efforts throughout the upcoming fiscal year to ensure lender deficiencies are monitored and potentially incorporated into OCRM's Risk Based Reviews and the OFA's policy rewrites and updates.	On-Track	Sep-23	1 Recovery Activity	To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and to prevent recurrence.	All improper payments identified have been resolved through recommendations to reduce or cancel the loan guaranty and/ or referral to other offices.

Amt(\$)	Root Cause of Overpayment	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
\$298M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	Lender failed to verify loan program eligibility based on the borrower's affiliated business entities; failed to obtain a UCC lien on the assets acquired with SBA loan proceeds; and, allowed the SBA loan proceeds to finance a business in excess of the appraised value.	Training – teaching a particular skill or type of behavior; refreshing on the proper processing methods.	Improper payments were resolved through recommendations to reduce or cancel the loan guaranty and/ or referral to Office of Credit Risk Management (OCR) and/or the Office of Financial Assistance. SBA also provided external training for lenders on policy requirements.