

Payment Integrity Scorecard

Program or Activity
504 Certified Development Loans Approvals

Reporting Period
Q4 2023

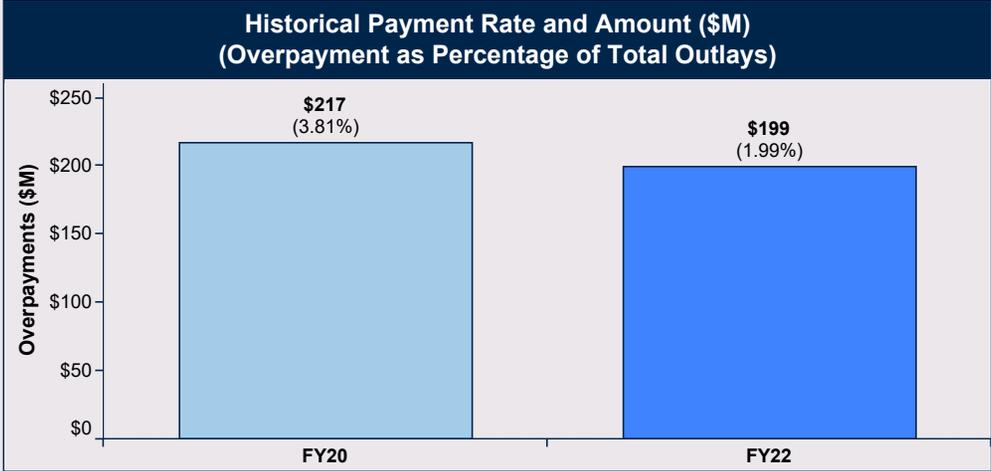
FY 2022 Overpayment Amount (\$M)* **\$199**

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

SBA SBA
504 Certified Development Loans Approvals

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

The 504 Certified Development Loans program, made available through Certified Development Companies (CDCs), provides small businesses with long-term, fixed rate financing for major assets that promote business growth and job creation. CDCs are the SBA's community-based partners: non-profit corporations certified and regulated by the Small Business Administration to package, process, close, and service 504 loans in order to promote economic development within their communities.



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. As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. Specific corrective actions are determined based upon the primary reason for the improper payment with the purpose of both remedying the improper payment and preventing recurrence. Plans for improvement include the following: • Collaborating with the Office of Credit Risk Management (OCRM) to recommend specific lender deficiencies be monitored and incorporated into Risk Based Reviews; • 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 • External training for lenders to ensure appropriate documentation is obtained and analyzed prior to loan approval and to ensure that policy requirements are met.

| Accomplishments in Reducing Overpayment | | Date |
|---|---|--------|
| 1 | • Because 504 loans are reviewed prior to monies being disbursed, resolution of an identified improper payment is usually through obtaining additional documentation from the CDC to remedy the potential improper payment or through cancellation of the loan. | Jun-23 |
| 2 | • The improper payment rate for FY2022 was 1.99%. In the short term, the agency is in the process of developing Tolerable Risk rates for the 7(a) Guaranty Purchases, 7(a) loan guaranty approval and 504 loan approval programs. | Jun-23 |

Payment Integrity Scorecard

Program or Activity
504 Certified Development Loans Approvals

Reporting Period
Q4 2023

| Goals towards Reducing Overpayments | Status | ECD | Recovery Method | Brief Description of Plans to Recover Overpayments | Brief Description of Actions Taken to Recover Overpayments |
|--|-----------------|--------|----------------------------|---|---|
| <p>1</p> <ul style="list-style-type: none"> The OFPO will continue to share the loan level and lender deficiencies identified during the reviews with the OFA and the OCRM. The OFPO will also continue its efforts to ensure CDC deficiencies are monitored and incorporated into lenders' Risk Based Reviews. External training will be provided in FY 2023. | On-Track | Sep-23 | 1 Recovery Activity | Resolution of improper payments occurs by obtaining additional documentation or through cancellation of the loan. | All improper payments identified as a result of the FY 2022 PIIA reviews have been resolved through obtaining additional documentation, loan modification, or cancellation of the loan. |
| <p>2</p> <ul style="list-style-type: none"> To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed. | On-Track | Sep-23 | 2 Recovery Activity | Corrective actions were generally completed at the loan level within 180 days with all actions taken by the end of the fiscal year. | |

| Amt(\$) | Root Cause of Overpayment | Root Cause Description | Mitigation Strategy | Brief Description of Mitigation Strategy and Anticipated Impact |
|---------------|--|---|--|---|
| \$199M | Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed. | SBA identified the primary root cause as Statutory Requirements of Program Were Not Met. In order to fit into categories in the OMB data-call, SBA identified a secondary root cause as Inability to Access Data/Information. SBA maintains that the primary root cause is correct. | Training – teaching a particular skill or type of behavior; refreshing on the proper processing methods. | As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. Specific corrective actions are determined based upon the primary reason for the improper payment . |

The FY 2022 improper payment rate estimate of 1.99 percent for this program is less than the target reduction rate of 2.97 percent from FY 2021. The SBA's sampling method is a statistically valid and rigorous plan, with a 95 percent confidence interval, plus a 3 percent margin of error, the upper and lower bounds of the confidence interval. Because the lower bound of its confidence interval, 0.21 percent, is lower than the reduction target of 2.97 percent, in accordance with OMB Appendix C to Circular A-123 (March 2021), the 504 loan guaranty approval program is considered to have met the reduction target.