



Highlights of [GAO-09-228](#), a report to congressional requesters

Why GAO Did This Study

The Small Business Administration's (SBA) 7(a) program is intended to provide loan guarantees to small business borrowers who cannot obtain conventional credit at reasonable terms and do not have the personal resources to provide financing themselves. In fiscal year 2008, SBA guaranteed over 69,000 loans valued at about \$13 billion. To assist in oversight of the 7(a) program, GAO was asked to (1) describe SBA's criteria and lenders' practices for determining that borrowers cannot obtain credit elsewhere and (2) examine SBA's efforts to ensure that lenders are complying with the credit elsewhere provision. To meet these objectives, GAO reviewed applicable statutes and guidance, visited 18 lenders and reviewed 238 of their loan files, reviewed 97 on-site lender review reports, and interviewed SBA officials. GAO's samples of lenders and loan files were not generalizable.

What GAO Recommends

GAO recommends that SBA issue more detailed guidance to lenders on how to document their compliance with the credit elsewhere requirement. In responding to a draft of this report, SBA stated that it would use GAO's findings to create more specific guidance for lenders.

SMALL BUSINESS ADMINISTRATION

Additional Guidance on Documenting Credit Elsewhere Decisions Could Improve 7(a) Program Oversight

What GAO Found

The Small Business Act and 7(a) program regulations and guidance allow lenders to use their conventional lending practices to determine whether borrowers can obtain credit elsewhere at reasonable terms. On the basis of a review of 238 loan files at 18 lenders, GAO observed that the most common reasons these lenders cited to substantiate that borrowers could not obtain credit elsewhere were that the borrower needed a longer maturity than the lender's policy permitted and the borrower's collateral did not meet the lender's requirements. These factors are two of the six listed in SBA's guidance as acceptable to substantiate that a borrower could not obtain conventional credit.

SBA has issued little guidance on how lenders should document in their files that borrowers could not obtain credit elsewhere. Internal control standards for federal agencies specify that good guidance (information and communication) is necessary to help ensure the proper implementation of program rules. While SBA's guidance requires lenders to explain why the borrower could not obtain credit elsewhere in the loan file, it does not specify what exactly lenders should include in their explanations. Between October 2006 and March 2008, SBA reviewed 97 lenders and determined that 31 of them had failed to consistently document that borrowers met the credit elsewhere requirement or personal resources test. All but one of the lenders with whom GAO met documented their credit elsewhere decisions in some way; however, given the broad authority granted to lenders, the explanations were generally not specific enough to reasonably support the lender's conclusion that borrowers could not obtain credit elsewhere. A number of these lenders used a checklist that simply listed the six acceptable reasons cited in SBA's guidance for substantiating that a borrower could not obtain credit elsewhere and did not prompt them to provide more information specific to the borrower—for example, details on insufficient collateral. Absent detailed guidance on what exactly SBA wants lenders to document in their credit elsewhere determinations, lenders likely will continue to offer limited information in their files, making meaningful oversight of compliance with the credit elsewhere requirement difficult.