U.S. SMALL BUSINESS ADMINISTRATION OFFICE OF INSPECTOR GENERAL

SBA's 7(a) Loan Guaranty Purchase Denial Review Process

Evaluation Report

Report 26-12

August 27, 2026



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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 may be appended to this report and posted on our public website.

EXECUTIVE SUMMARY

SBA's 7(a) Loan Guaranty Purchase Denial Review Process (Report 26-12)

What OIG Reviewed

This report presents the results of our evaluation of the Small Business Administration's (SBA) 7(a) loan guaranty purchase denial review process for loans previously recommended for repair or denial.

SBA's 7(a) loan program provides access to credit for eligible small businesses, through lenders. If a borrower defaults on a loan, the lender can request that SBA purchase the guaranty. SBA honors the guaranty if its loan review finds the lender complied with program requirements; however, SBA is released from liability, in part (repair) or in full (denial), if the lender did not comply.

If the lender disagrees with the agency's initial decision to repair or deny, the file is routed to SBA's Portfolio Management and Quality Control (PMQC) team to review and make a final decision.

From October 1, 2021, through March 31, 2025, the PMQC team reviewed and made final decisions on 545 loans with guaranty purchase requests previously recommended for repair or denial.

Our objective was to assess whether SBA's final decisions for 7(a) loan guaranty purchases previously recommended for repair or denial were appropriate to ensure program integrity and mitigate financial loss.

What OIG Found

SBA's final decisions on loan guaranty purchase requests previously recommended for repair or denial were not always appropriate to ensure program integrity or mitigate financial loss. We found the agency made final decisions on 16 of 32 loans we reviewed without sufficient evidence to support its decisions, resulting in about $11.5 million in potential improper payments.

Also, while SBA improved its timeliness in making final loan review decisions, opportunities exist to further enhance timely decision making and mitigate financial loss. For example, the agency did not seek repair or denial for 13 loans, totaling about $5.4 million, because the statute of limitations expired. Further, SBA did not pursue administrative offset for these 13 loans, which could have allowed the agency to collect on the loan guaranties owed by lenders.

By strengthening internal guidance and controls, SBA can better foster transparency, accuracy, and consistency in its repair and denial process. This will provide reasonable assurance that the process is working as intended, promote program integrity, and mitigate financial loss.

What OIG Recommended

We made six recommendations to enhance internal controls to promote program integrity and mitigate the risk of improper payments.

Agency Response

SBA management agreed with Recommendations 2, 3, and 5; and partially agreed with Recommendations 1, 4, and 6. Management's planned actions resolve all recommendations, which can be closed when they provide evidence of implementation.

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Introduction

This report presents the results of our evaluation of the Small Business Administration's (SBA) 7(a) loan guaranty purchase denial review process for loans previously recommended for repair or denial with final decisions made from October 1, 2021, through March 31, 2025.

Background

SBA's 7(a) loan program provides access to credit to eligible small businesses that are unable to obtain credit from other sources. Both bank and non-bank lenders provide the loans, which the government guaranties through SBA.

While the majority of SBA's 7(a) portfolio is in good standing, some borrowers do not make their scheduled payments and default on their loans. After a default, the lender may request that SBA purchase the guaranty and SBA conducts a loan review to determine if the lender complied with program requirements. The decision to honor the guaranty is contingent on whether the lender originated, closed, serviced, and liquidated the loan in accordance with requirements. If SBA finds the lender did not comply with program requirements and their actions resulted in a material loss or harm to program integrity, SBA is released from liability on the guaranty.[1] In these instances, the review results in a repair (SBA will honor a portion of the guaranty) or denial (SBA will not honor any of the guaranty).[2]

The Office of Financial Program Operations, under the supervision of the Office of Capital Access, is responsible for the 7(a) guaranty purchase repair or denial review process. When an SBA loan servicing center recommends that SBA fully or partially deny its guaranty, the lender can agree or disagree with SBA's initial decision. If the lender agrees, the center cancels or reduces the guaranty and the review is closed. If the lender disagrees with the decision, the file is routed to the Office of Financial Program Operations' Portfolio Management and Quality Control (PMQC) team to review the specific reason(s) the loan was recommended for repair or denial. After the review, the PMQC team communicates the decision to repair, deny, or honor the loan guaranty with the lender. If PMQC decides to honor the guaranty, they overturn the original decision, and SBA pays the guaranty to the lender.

[1] SBA SOP 50 57 2 Chap 24 (B)(1).
[2] 13 C.F.R. 120.524(a).

From October 1, 2021, through March 31, 2025, PMQC reviewed and made final decisions on 545 loans with guaranty purchase requests previously recommended for repair or denial. PMQC made the final decisions as follows:

- Upheld 247 loans (or 45 percent) for denial
- Upheld 101 loans (or 19 percent) for repair
- Overturned 197 loans (or 36 percent) initially recommended for repair or denial, which resulted in SBA purchasing guaranties totaling approximately $168 million

Objective

Our objective was to assess whether SBA's final decisions for 7(a) loan guaranty purchases previously recommended for repair or denial were appropriate to ensure program integrity and mitigate financial loss.

Results

SBA's final decisions on loan guaranty purchases previously recommended for repair or denial were not always appropriate to ensure program integrity or mitigate financial loss. Of the 32 loans we reviewed, we found SBA made appropriate decisions on 16; however, for the remaining 16, SBA did not have sufficient evidence to support its loan review decisions, resulting in approximately $11.5 million in potential improper payments.

The unsupported decisions were generally caused by limited internal guidance for the repair or denial review process. As a result, SBA does not have reasonable assurance that its repair or denial review process is effectively mitigating the risk of improper payments. PMQC repair or denial review process decisions are the final control for 7(a) guaranty purchases. Accuracy and consistency in this process is critical to ensuring taxpayer funds are not provided to lenders who do not comply with loan program requirements.

We also found that SBA improved the timeliness of final decisions for guaranty purchase loan reviews previously recommended for repair or denial. Specifically, the average time for PMQC to make final decisions for 306 of 545 loans that entered the process prior to October 1, 2021[3], and were finalized during our review period, was 1,156 days, compared to 362 days for the remaining 239 loans that entered the process on or after October 1, 2021. However,

[3] Loans that entered the PMQC process prior to October 1, 2021, entered as early as December 3, 2013.

opportunities exist to further enhance timely decision making to promote program integrity and mitigate financial loss. Specifically, the agency did not seek repair or denial as recommended for an additional 13 loans, totaling about $5.4 million, because timeframe requirements for the statute of limitations expired. Further, the agency did not seek recovery via administrative offset for these 13 loans.[4]

Finding 1: SBA's Final Decisions for 7(a) Loans Previously Recommended for Repair or Denial Were not Always Supported

We reviewed 32 loans from high-risk categories,[5] previously recommended for repair or denial, and subsequently overturned. We found that SBA made appropriate final decisions for 16 loans; however, its final decisions for the remaining 16 loans, totaling approximately $11.5 million, were not appropriate. For these 16 loans, SBA did not adequately support the final decisions it made to honor the 7(a) loan guaranties, overturning the previous recommendations from the servicing centers to repair or deny the guaranty. Specifically, SBA did not have sufficient evidence for its decisions to overturn the previous recommendations as follows:

Table 1: OIG Reviews of PMQC Overturned Final Decisions

High-Risk Category	Number of Loans Reviewed	Number of Loans with Insufficient Evidence to Support Review Decisions	Potential Material Loss
Repayment Ability	6	5	$4,875,975
Other Eligibility	12	4	$2,709,180
Equity Injection	7	3	$2,148,660
IRS Tax Verification	4	2	$1,529,196
Debt Refinance	3	2	$279,958
Total	**32**	**16**	**$11,542,969**

Note: See Appendix 3 for expanded results of OIG reviews of 32 overturned final decisions.

Source: Office of Inspector General (OIG) analysis of PMQC final decisions.

[4] Administrative offset refers to the withholding of funds payable by the United States to a person to satisfy a claim.
[5] We determined high-risk categories based on prior OIG work in the 7(a) program, which found recurring material issues on defaulted 7(a) loans. See Table 1 for the high-risk categories selected for review.

Below are detailed examples of where we found that SBA did not adequately support its decisions in several high-risk areas.

- Repayment Ability: For one early defaulted loan (default occurs within 18 months of disbursement), SBA did not have adequate support to show the borrower could repay the loan through cash flow of the business[6] and relied on an unsupported explanation for the business failure to justify its decision to honor the loan guaranty. The lender did not provide SBA with evidence that it had addressed an existing $45,000 tax lien prior to approval, as required. Further, the lender stated the loan defaulted due to the borrower's loss of a major client. There was no evidence provided to justify this claim.
- Other Eligibility: One loan was recommended for denial because the seller of a business stayed on as a key employee in violation of 7(a) change of ownership requirements.[7] The Office of General Counsel (OGC), Office of Credit Risk Management, PMQC, and Office of Capital Access officials reviewed the loan and concurred with the denial recommendation. However, Office of Capital Access leadership ultimately overturned the decision at the stage of final approval; but SBA's explanation that the key employee was an unpaid volunteer was not supported to justify the decision to overturn the denial recommendation.
- Equity Injection: For one early defaulted loan, the lender was required to verify a cash injection prior to loan disbursement; however, the lender did not provide adequate evidence that demonstrated the cash injection was made from a legitimate source, as required.[8] The PMQC reviewer used criteria unrelated to the facts of the loan to justify overturning the denial.

These unsupported decisions were generally caused by limited internal guidance for the repair or denial review process. SBA used Standard Operating Procedures (SOP) to conduct its guaranty purchase repair or denial reviews which contain 7(a) loan program requirements for originating, closing, servicing, and liquidating 7(a) loans. However, the agency did not have supplemental guidance, such as desk guides or manuals, to apply the criteria in complex, high-risk loan scenarios.

Therefore, SBA's PMQC loan reviewers did not consistently have the necessary supporting documentation to analyze or resolve the material issues for which several loans were referred for additional review. Further, some repair or denial reviews confirmed loans had material issues

[6] SBA SOP 50 10 5 (H) Subpart B Chap 4 (I)(A)(2)(m).
[7] SBA SOP 50 10 5 (H) Subpart B Chap 2 (IV)(H)(2).
[8] SBA SOP 50 10 5 (H) Subpart B Chap 4 (I)(E)(3)(a).

that warranted denial of the lenders' guaranty; however, Office of Capital Access leadership at the time overturned PMQC's decisions without resolving the material issue or documenting their rationale.

Internal procedures are necessary to provide specific instructions to reviewers on how to analyze complex material issues with sufficient evidence to support their decisions. This should include requiring reviewers and approvers to document and support their rationale for overturning supported PMQC denial decisions.[9] Providing clear internal guidance allows reviewers to analyze complex loans previously recommended for repair or denial, accurately and consistently.

By inappropriately overturning 16 of the 32 loans (or 50 percent) we reviewed, SBA made potential improper payments resulting in approximately $11.5 million in questioned costs, increasing the financial loss to taxpayers. PMQC repair or denial review decisions are the final control for 7(a) guaranty purchases. Accuracy and consistency in this process is critical to mitigating improper payments and ensuring taxpayer funds are not provided to lenders who do not comply with loan program requirements. Further, resolving material issues or documenting the rationale for overriding these controls promotes program integrity, transparency, and provides reasonable assurance that the repair or denial review process is operating as intended.

Recommendations

To address potential improper payments in the 7(a) loan program, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Remedy or seek recovery, when appropriate, of the guaranties for the 16 loans, totaling approximately $11.5 million, to promote program integrity and mitigate financial loss to taxpayers.

Recommendation 2: Update guidance and procedures for the repair and denial process and implement controls to ensure final decisions are documented with properly supported rationale to prevent unsupported or inappropriate decisions that impact program integrity or result in financial loss.

[9] GAO Standards for Internal Control in the Federal Government state that management should design control activities to mitigate risks to achieving the entity's objectives to acceptable levels. Further, management designs control activities to prevent and detect improper payments. These control activities may include obtaining supporting documentation before making payments.

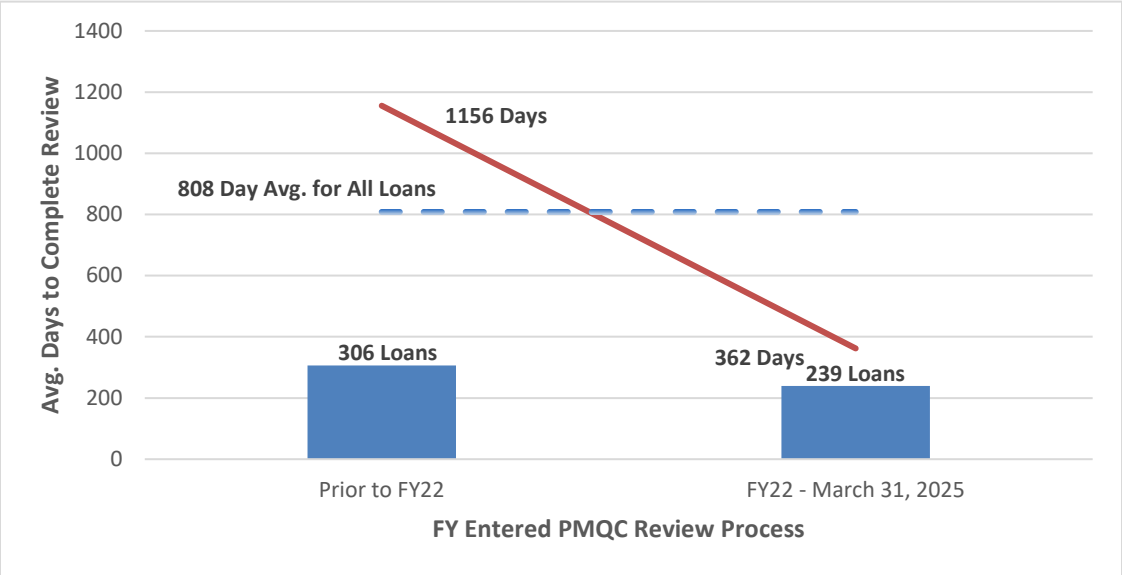
Finding 2: Timely Decisions for Guaranty Purchase Loan Reviews

SBA improved its timeliness in making final decisions for guaranty purchase loan reviews previously recommended for repair or denial. However, opportunities exist to further enhance timely decision making to promote program integrity and mitigate financial loss. For example, SBA did not seek repair or denial for 13 loans, totaling about $5.4 million, due to the expiration of the 6-year statute of limitations. Additionally, SBA did not pursue recovery for these loans through administrative offset, which could have allowed the agency to collect on the loan guaranties owed by lenders.

Timeliness for Final Review Decisions Improved yet Opportunities Exist to Strengthen Process Controls

On average, SBA improved timeliness of PMQC final review decisions on the 545 guaranty purchase loan reviews that were finalized between October 1, 2021, and March 31, 2025. As shown in Figure 1, the average time for PMQC to make a final decision for the 306 loans previously recommended for repair or denial that entered the process prior to October 1, 2021, was 1,156 days compared to 362 days for the remaining 239 loans that entered the process on or after that date.

Figure 1: Average Days to Complete PMQC Repair or Denial Reviews



Source: OIG analysis of repair or denial review decision data.

Although SBA improved its timeliness in making final decisions, opportunities exist for additional enhancements to promote program integrity and mitigate financial loss. We found the agency did not seek repair or denial as recommended but instead overturned the decisions for 13 loans that were in the PMQC repair or denial review process for more than 1,500 days or 4 years. Table 2 depicts the total time it took for a final decision to be made for each loan after it defaulted.[10]

Table 2: Total Days from Loan Default to Repair or Denial Review Completion

Loan	Days Between Loan Default and Servicing Center Completing Review[11]	Days to Complete PMQC Review	Total Days to Complete from Default Date	Total Years to Complete from Default Date	Percentage Time in PMQC Review
1	1787	5807	7594	20.8	76%
2	3078	4424	7502	20.6	59%
3	4675	2554	7229	19.8	35%
4	5264	1555	6819	18.7	23%
5	1596	3654	5250	14.4	70%
6	82	4979	5061	13.9	98%
7	2770	1895	4665	12.8	41%
8	725	3506	4231	11.6	83%
9	1511	2563	4074	11.2	63%
10	1195	2592	3787	10.4	68%
11	271	3220	3491	9.6	92%
12	950	2296	3246	8.9	71%
13	461	2749	3210	8.8	86%

Source: OIG analysis of PMQC final decision data.

Delays were due to inadequate tracking controls that allowed the loans to remain in the repair or denial review process for extended periods prior to PMQC making a final decision. We also noted that SBA servicing centers, in some cases, took extensive time to make repair or denial

[10] SBA officials stated they generally used the default date to determine a potential statute of limitation expiration date. Therefore, we used the default date as the basis for our analysis.

[11] The days between loan default and servicing center completing review includes both the time the lender had the loan before submitting it for guaranty purchase and the time taken by the servicing center to complete their review.

recommendations; however, we did not review the centers' goals and objectives as our scope of work focused on PMQC's process and final review decisions. PMQC stated that its goal was to complete reviews of loans recommended for repair or denial within 1 year of receiving the loans from the servicing centers; however, we found that PMQC did not meet this goal. SBA took approximately 808 days on average to make final decisions for the 545 loans we analyzed. We identified the following two process points that led to the goal not being met:

- SBA did not initiate a repair or denial review for 352 days, on average, after the loan was placed into the PMQC process.
- SBA legal opinions requested as part of the PMQC repair or denial process took 305 days, on average, to complete.

SBA officials stated delays in processing repair or denial reviews were due to competing responsibilities and priorities in the program office. OGC officials noted that they supported multiple SBA program offices and would at times be tasked with other priorities. Additionally, one PMQC official stated they were assigned to other projects or tasks. In 2023, SBA changed its internal processes to move OGC reviews to the backend, as needed, in an effort to improve timeliness.

While SBA officials noted the reviews were expected to be completed within 1 year, we found that SBA did not have formalized metrics to ensure consistent timely performance for repair or denial reviews.

SBA's Ability to Pursue Recovery Through Administrative Offset

As previously mentioned, we found SBA did not pursue recovery on the 13 loans presented in Table 2 or resolve the material issues because the statute of limitations had expired. However, we also found that federal law provided other remedies for collection of loan guaranties, such as through administrative offset.

Although federal law states that every action for monetary damages is barred unless a complaint is filed within 6 years,[12] it does not prevent SBA from seeking recovery through administrative offset. Administrative offset refers to the withholding of funds payable by the United States to a person to satisfy a claim.[13] If a material reason to repair or deny the loan exists, SBA is entitled to

[12] 28 U.S.C. §2415.
[13] 31 U.S.C. §2415.3701(a)(1).

recover the guaranty plus interest from the lender. SBA may use all legal means available to recover its guaranty, including administrative offset.[14]

SBA did not pursue administrative offset because PMQC personnel did not believe they had additional recourse once the statute of limitations expired. Further, SBA did not have a process to recover guaranties on loans that had statute of limitations concerns. As a result, SBA did not pursue resolution or recovery for the 13 loans, totaling approximately $5.4 million.

Recommendations

To address loan review timeliness and mitigate the risk of financial loss, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 3: Formalize metrics for loan review timeframes.

Recommendation 4: Ensure SBA's repair or denial review tracking system flags loans that are at risk of expiration under the statute of limitations to ensure SBA has legal means to recover on loans with material issues to mitigate the risk of financial loss in the program.

Recommendation 5: Develop a process to pursue administrative offset, when applicable, on 7(a) loans recommended for repair or denial to minimize the risk of financial loss.

Recommendation 6: Complete repair or denial reviews on the 13 loans totaling approximately $5.4 million that were overturned due to statute of limitations concerns and, if the material issues cannot be remedied, pursue administrative offset to ensure program integrity and minimize financial loss.

Evaluation of Agency Response

SBA management provided formal comments that are included in their entirety in Appendix 4. Management agreed with Recommendations 2, 3, and 5 and partially agreed with Recommendations 1, 4, and 6. Management's planned actions satisfy the intent of the recommendations. These recommendations are resolved and can be closed when management provides evidence that they implemented the planned actions, including sufficient evidence to support their loan review decisions.

[14] 13 C.F.R 120.524(a)-(b).

Summary of Actions Necessary to Close the Recommendations

The following section summarizes the status of our recommendations and the actions necessary to close them.

Recommendation 1

To address potential improper payments in the 7(a) loan program, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to remedy or seek recovery, when appropriate, of the guaranties for the 16 loans, totaling approximately $11.5 million, to promote program integrity and mitigate financial loss to taxpayers.

Status: Resolved

SBA partially agreed with this recommendation, stating that the applicable statutes, regulations, and Agency guidance used to make repair and denial determinations include considering material loss and harm to program integrity and that the existence of a technical or procedural deficiency does not, by itself, result in repair or denial. Each determination requires an individualized assessment of the facts, legal authorities, and the effect of any identified noncompliance on the Agency's interests. SBA agreed that it should evaluate each loan the OIG identified and reviewed the 16 loans, finding that the guaranty purchases for 15 of them were appropriate. SBA stated that, if legally supported, it will pursue recovery of the remaining loan by March 31, 2027.

While management partially agreed with this recommendation, their corrective actions are responsive, and we appreciate the agency’s commitment to pursuing recovery for the one loan, if legally supported. This recommendation can be closed when SBA provides sufficient evidence to support its final guaranty purchase decisions for the 15 loans it deemed appropriate, and evidence that it is seeking recovery for the one loan.

Recommendation 2

To address potential improper payments in the 7(a) loan program, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to update guidance and procedures for the repair and denial process and implement controls to ensure final decisions are documented with properly supported rationale to prevent unsupported or inappropriate decisions that impact program integrity or result in financial loss.

Status: Resolved

SBA management agreed with this recommendation, stating they will update internal guidance and documentation requirements, clarify approval responsibilities, and address quality assurance controls by January 1, 2027.

This recommendation can be closed when management provides evidence that they have updated internal guidance, documentation requirements, approval responsibility, and quality assurance controls.

Recommendation 3

To address loan review timeliness and mitigate the risk of financial loss, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to formalize metrics for loan review timeframes.

Status: Resolved

SBA management agreed with this recommendation, stating they will update documented loan review timeframes, routine aging reports, and periodic management reviews by January 18, 2027.

This recommendation can be closed when management provides evidence that they have incorporated formalized metrics for loan review timeframes, routine aging reports, and periodic management reviews.

Recommendation 4

To address loan review timeliness and mitigate the risk of financial loss, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to ensure SBA's repair or denial review tracking system flags loans that are at risk of expiration under the statute of limitations to ensure SBA has legal means to recover on loans with material issues to mitigate the risk of financial loss in the program.

Status: Resolved

SBA management partially agreed with this recommendation, stating they agree enhanced tracking controls can be implemented; however, they maintain that their review responsibilities do not begin immediately upon borrower default. Rather they begin after SBA receives the lender's guaranty purchase request and documentation necessary for the agency to conduct its review. Management stated that enhanced tracking and monitoring will align with the legal milestones that dictate SBA's review. Accordingly, they will evaluate enhancements to case

tracking, including automated alerts and management reporting based on appropriate legal milestones by February 4, 2027.

During our evaluation, SBA officials stated they generally used the default date to determine the potential statute of limitation expiration date, which is inconsistent with management's response. Based on the information SBA provided during our evaluation, we used the default date, as it provides a reasonable basis to identify loans at risk of expiration under the statute of limitations.

Although management partially agreed with the recommendation, SBA's proposed actions are responsive to the recommendation. This recommendation can be closed when management provides evidence that they have evaluated and implemented enhancements to their tracking system that identifies loans at risk of expiration under the statute of limitations to mitigate the risk of financial loss in the program.

Recommendation 5

To address loan review timeliness and mitigate the risk of financial loss, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to develop a process to pursue administrative offset, when applicable, on 7(a) loans recommended for repair or denial to minimize the risk of financial loss.

Status: Resolved

SBA management agreed with this recommendation, stating they will coordinate with the Office of General Counsel to develop procedures to implement administrative offset and other available remedies where legally appropriate by March 31, 2027.

This recommendation can be closed when management provides evidence that they have implemented a process to pursue administrative offset, when applicable, on 7(a) loans recommended for repair or denial to minimize the risk of financial loss.

Recommendation 6

To address loan review timeliness and mitigate the risk of financial loss, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to complete repair or denial reviews on the 13 loans totaling approximately $5.4 million that were overturned due to statute of limitations concerns and, if the material issues cannot be remedied, pursue administrative offset to ensure program integrity and minimize financial loss.

Status: Resolved

SBA management partially agreed with this recommendation, stating it agrees the identified loans should be evaluated as appropriate. However, each loan requires an independent legal and factual analysis before determining whether any additional administrative action is warranted. Following consultation with the Office of General Counsel, SBA stated it will determine whether additional administrative action is warranted for any identified loan consistent with applicable law, Agency policy, and the evidentiary record by March 31, 2027.

Management partially agreed with the recommendation, however, their planned actions are responsive. This recommendation can be closed when management provides evidence that they have reviewed the 13 loans to determine if additional administrative actions were warranted and pursued recovery through administrative offset, when applicable.

Appendix 1: Scope and Methodology

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) 7(a) loan guaranty purchase denial review process for loans previously recommended for repair or denial by SBA servicing centers. Our scope of work included 545 loan guaranty purchase requests with final decisions made by SBA's Office of Financial Program Operations, Portfolio Management and Quality Control (PMQC) team from October 1, 2021, through March 31, 2025.

To answer our objective, we reviewed pertinent public laws, federal regulations, and other agency guidance used to make final determinations for 7(a) loan guaranty purchase requests previously recommended for repair or denial by SBA servicing centers. We also interviewed SBA officials responsible for the denial review process to gain an understanding of the process.

We analyzed SBA decision-level data and found 197 loans recommended for repair or denial that were overturned during our scope period. Further analysis of the referred denial or repair reason (i.e., eligibility, repayment ability, equity injection) as recorded by SBA found that 119 of 197 loans were in high-risk categories, as determined by the Office of Inspector General (OIG). We determined high-risk categories based on prior OIG work in the 7(a) program which found recurring material issues (such as repayment ability, etc.) on defaulted 7(a) loans. We selected a judgmental sample of 32 of 119 high-risk loans to assess whether the final decisions to purchase the loan guaranties were appropriate.

Our assessment of loans was generally limited to the reason a servicing center referred a loan for repair or denial (i.e., a loan referred to and reviewed by PMQC for an eligibility issue was reviewed by the OIG for the same eligibility issue). The OIG analyzed the loans using an internally developed review checklist to determine if loan program requirements related to the referral reason were followed and then determined the appropriateness of PMQC's final decisions.

To determine the timeliness of 545 loans with final decisions made by the PMQC review process during our scope period, we analyzed final decision data from an internal tracker which contained the dates a loan entered the process and the date the loan was resolved by the process. We then analyzed the overturned loans to determine the amount of time elapsed between the default date of a loan and the date of final decision made by PMQC. Loans identified as having more than 6 calendar years elapsed between the default date and final decision date were further analyzed to determine whether federal statute of limitations concerns were a factor in the PMQC final decision.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform this evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

Use of Computer-Processed Data

We relied on data from Office of Financial Program Operations' PMQC internal tracking system to perform data analysis on the timeliness of PMQC reviews. Data in the PMQC tracking system is manually entered by staff. We performed work to validate and reconcile key data fields used in our analysis to support documentation, including fields for when a loan entered the PMQC review process, when it was resolved, and the final decision date. Further, we validated information used in the PMQC tracking system to ensure the accuracy of the number of loans in our universe of final decisions made from October 1, 2021, through March 31, 2025. Specifically, we validated repair, denial, and overturned statuses from the tracker against the loan accounting system data, and other source documents, to determine if the data in the tracker was reliable to support the findings and conclusions presented in the report. We found data from the system to be sufficiently reliable to support the findings and conclusions presented in this report.

Prior Audit Coverage

The following lists the OIG's previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
18-07	*Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payment Rate*	December 11, 2017
18-21	*Office of Inspector General High Risk 7(a) Loan Review Program*	August 15, 2018
18-23	*Office of Inspector General High Risk 7(a) Loan Review Program*	September 13, 2018
19-15	*Office of Inspector General High Risk 7(a) Loan Review Program*	July 10, 2019
19-16	*Office of Inspector General High-Risk 7(a) Loan Review Program*	August 14, 2019
19-19	*Office of Inspector General High Risk 7(a) Loan Review Program*	September 19, 2019
20-18	*Office of Inspector General High Risk 7(a) Loan Review Program*	August 25, 2020

Appendix 2: Monetary Impact

Monetary impact identified in this report is categorized as questioned costs. Questioned costs are expenses not supported by adequate documentation at the time of the audit, or which otherwise do not comply with legal, regulatory, or contractual requirements.

Recommendation	Category	Amount
1	Unsupported costs	$11,542,969
6	Unsupported costs	$ 5,381,740
Total		$16,924,709

Source: U.S. Small Business Administration's Office of Inspector General analysis.

Appendix 3: Results of SBA OIG Reviews of PMQC Overturned Final Decisions

This table shows the breakout of the 32 loans that the U.S. Small Business Administration's Office of Inspector General (SBA OIG) selected for review that were recommended for denial but subsequently overturned as summarized in Finding 1.

Sample Number	SBA Guaranty	High Risk Category	SBA OIG Determined PMQC Final Decision Appropriate	Questioned Amount
1	$3,486,750	Other Eligibility	No	$486,480
2	$180,000	Other Eligibility	Yes	-
3	$1,190,700	Other Eligibility	Yes	-
4	$1,500,000	Other Eligibility	Yes	-
5	$502,500	Other Eligibility	No	$305,570
6	$1,168,875	Other Eligibility	No	$725,605
7	$1,125,000	Other Eligibility	Yes	-
8	$1,125,000	Other Eligibility	Yes	-
9	$1,404,900	Other Eligibility	Yes	-
10	$311,250	Other Eligibility	Yes	-
11	$1,176,000	Other Eligibility	No	$1,191,525
12	$1,224,900	Other Eligibility	Yes	-
13	$660,000	Equity Injection	Yes	-
14	$285,000	Equity Injection	Yes	-
15	$344,250	Equity Injection	No	$301,783
16	$1,390,500	Equity Injection	No	$1,381,837
17	$316,500	Equity Injection	Yes	-
18	$276,750	Equity Injection	Yes	-
19	$832,500	Equity Injection	No	$465,040
20	$712,500	Repayment Ability	No	$609,756
21	$3,750,000	Repayment Ability	No	$3,674,357
22	$300,225	Repayment Ability	No	$232,990
23	$1,162,500	Repayment Ability	Yes	-
24	$263,250	Repayment Ability	No	$258,769
25	$106,250	Repayment Ability	No	$100,103
26	$1,620,003	IRS Tax Transcripts	No	$1,236,110

27	$3,319,050	IRS Tax Transcripts	Yes	-
28	$337,500	IRS Tax Transcripts	No	$293,086
29	$750,000	IRS Tax Transcripts	Yes	-
30	$1,309,725	Debt Refinance	No	$109,665
31	$753,750	Debt Refinance	No	$170,293
32	$1,149,525	Debt Refinance	Yes	
Total	**$34,035,653**			**$11,542,969**

Source: SBA OIG analysis.

Appendix 4: Agency Response

Small Business Administration
Response to the Evaluation Report

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: William W. Kirk
Inspector General
U.S. Small Business Administration (SBA)

From: Martin Andrews MARTIN ANDREWS Digitally signed by MARTIN ANDREWS Date: 2026.07.17 11:07:14 -04'00'
Director, Business Loan Operations
Office of Financial Program Operations
Office of Capital Access

Date: July 10, 2026

Subject: SBA's 7(a) Loan Guaranty Purchase Denial Review Process (25007)

Background:

The Office of Capital Access (OCA) appreciates the Office of Inspector General's (OIG's) review of the 7(a) Loan Guaranty Purchase Denial Review Process and values the professional engagement throughout the evaluation. OCA shares OIG's commitment to protecting taxpayer resources, preserving program integrity, and ensuring guaranty purchase determinations are made in accordance with applicable law, regulation, and Agency policy.

OCA is committed to continuously evaluating and enhancing its policies, procedures, and internal controls to promote consistent, well-supported repair and denial determinations. The Agency supports recommendations that strengthen documentation, quality assurance, consistency, and operational efficiency.

However, OCA respectfully disagrees with several legal and methodological assumptions underlying the draft report. Accordingly, the Agency's responses distinguish between process improvements that OCA intends to implement and conclusions with which OCA does not concur.

Most notably, OCA disagrees with the report's use of the borrower default date as the benchmark for evaluating Agency timeliness. SBA's statutory and regulatory responsibilities associated with a guaranty purchase review do not arise upon borrower default. Rather, those responsibilities begin only after a participating lender submits a guaranty purchase request and SBA receives the documents necessary to evaluate lender compliance with applicable program requirements. It is at that time that the statute of limitations generally begins to run for SBA to seek recovery of a

guarantee paid. Prior to that time, the guaranty represents a contingent liability, and SBA has neither the legal authority nor the operational ability to adjudicate the guaranty purchase determination. Measuring elapsed time beginning with borrower default therefore attributes periods outside SBA's authority and operational control to the Agency and does not accurately reflect the performance of the repair and denial review process.

OCA disagrees with the conclusion that documentation limitations, standing alone, establish that a guaranty purchase determination was inappropriate. SBA's repair and denial determinations are made in accordance with applicable statutes, regulations, and Agency policy, including the decision framework set forth in SOP 50 57, Chapter 25, which requires consideration of material loss and harm to program integrity when determining whether repair or denial of SBA's guaranty is warranted. Documentation supporting a decision and the substantive correctness of that decision are related but distinct considerations. While OCA recognizes opportunities to further strengthen documentation practices, documentation limitations do not necessarily establish that a determination was inconsistent with Agency policy or resulted in material loss or harm to program integrity.

Further, OCA disagrees with the characterization that all loans identified in the report constitute unsupported guaranty purchases or potential improper payments. Throughout the evaluation, OCA provided legal, factual, and programmatic support for numerous final determinations and continues to believe that several challenged decisions reflect reasonable exercises of administrative judgment based on the complete evidentiary record, applicable legal authorities, and governing Agency guidance.

Recommendation 1: Remedy or seek recovery, when appropriate, of the guaranties for the 16 loans, totaling approximately $11.5 million, to promote program integrity and mitigate financial loss to taxpayers.

SBA Response: SBA partially agrees with this recommendation.

SBA repair and denial determinations are governed by applicable statutes, regulations, and Agency guidance, including SOP 50 57, Chapter 25, which requires consideration of material loss and harm to program integrity when determining whether release of SBA's guaranty is appropriate. Under this framework, the existence of a technical or procedural deficiency does not, by itself, result in repair or denial. Each determination requires an individualized assessment of the facts, legal authorities, and the effect of any identified noncompliance on the Agency's interests.

OCA agrees that the loans identified by OIG should be evaluated individually. However, the Agency does not agree that recovery is appropriate for every loan identified. Agreement to evaluate individual loans should not be construed as agreement with OIG's characterization of those loans or with every conclusion presented in the draft report.

Planned Actions: OCA completed an individualized evaluation of each of the 16 loans identified by OIG using the applicable statutes, regulations, Agency guidance, administrative record, and other relevant information. Based on that evaluation, SBA determined that the

guaranty purchase determinations for 15 of the 16 loans were appropriate. SBA will, if legally supported, pursue appropriate recovery action of the remaining loan.

Final Action Target Date: March 31, 2027

Recommendation 2: Update guidance and procedures for the repair and denial process and implement controls to ensure final decisions are documented with properly supported rationale to prevent unsupported or inappropriate decisions that impact program integrity or result in financial loss.

SBA Response: SBA agrees with this recommendation.

Planned Actions: Update internal guidance and documentation requirements, clarify approval responsibilities, and address quality assurance controls.

Final Action Target Date: January 1, 2027

Recommendation 3: Formalize metrics for loan review timeframes.

SBA Response: SBA agrees with this recommendation.

Planned Actions: Update documented loan review timeframes, routine aging reports, and periodic management reviews.

Final Action Target Date: January 18, 2027

Recommendation 4: Ensure SBA's repair or denial review tracking system flags loans that are at risk of expiration under the statute of limitations to ensure SBA has legal means to recover on loans with material issues to mitigate the risk of financial loss in the program.

SBA Response: SBA partially agrees with this recommendation. OCA agrees enhanced tracking controls can be implemented; however, SBA's position remains that its review responsibilities do not begin immediately upon borrower default. Rather they begin after SBA receives the lender's guaranty purchase request and documentation necessary for the Agency to conduct its review. Enhanced tracking and monitoring will align with the legal milestones that dictate SBA's review.

Planned Actions: Evaluate enhancements to case tracking, including automated alerts and management reporting based on appropriate legal milestones.

Final Action Target Date: February 4, 2027

Recommendation 5: Develop a process to pursue administrative offset, when applicable, on 7(a) loans recommended for repair or denial to minimize the risk of financial loss.

SBA Response: SBA agrees with the recommendation.

Planned Actions: Coordinate with the Office of General Counsel to develop procedures to implement administrative offset and other available remedies where legally appropriate.

Final Action Target Date: March 31, 2027

Recommendation 6: Complete repair or denial reviews on the 13 loans totaling approximately $5.4 million, that were overturned due to statute of limitations concerns and, if the material issues cannot be remedied, pursue administrative offset to ensure program integrity and minimize financial loss.

SBA Response: SBA partially agrees with this recommendation.

OCA agrees the identified loans should be evaluated, as appropriate. However, each loan requires an independent legal and factual analysis before determining whether any additional administrative action is warranted.

Planned Actions: Following consultation with the Office of General Counsel, determine whether additional administrative action is warranted for any identified loan consistent with applicable law, Agency policy, and the evidentiary record.

Final Action Target Date: March 31, 2027