U.S. SMALL BUSINESS ADMINISTRATION OFFICE OF INSPECTOR GENERAL

Small Business Lending Companies' Performance in the 7(a) Loan Program and SBA's Oversight

Evaluation Report

Report 26-14

September 17, 2026



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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

Small Business Lending Companies' Performance in the 7(a) Loan Program and SBA's Oversight (Report 26-14)

What OIG Reviewed

A Small Business Lending Company (SBLC) is a non-depository lending institution the Small Business Administration (SBA) licenses and authorizes to make 7 (a) loans. From fiscal years (FY) 2016 to 2023, SBLCs approved and disbursed 11,068 7(a) loans, totaling $9.5 billion. As of April 5, 2025, there were 16 SBLC licenses.

SBA's Office of Credit Risk Management (OCRM) monitors and supervises SBLCs and oversees their performance in the 7(a) loan program by performing lender portal data analysis, risk-based reviews, and safety and soundness exams.

Our objective was to assess SBLCs' performance in the 7(a) loan program and SBA's oversight of SBLCs to ensure program integrity and mitigate financial loss.

What OIG Found

Opportunities exist for SBA to improve SBLCs' 7(a) loan portfolio performance and its oversight of SBLCs. Our analysis of 7(a) loans approved and disbursed from FYs 2016 to 2023 identified that loans made by SBLCs significantly underperformed, related to default rates, compared to loans made by other lender types. Additionally, early defaults increased substantially for loans made by SBLCs during this same period.

As of March 31, 2025, SBLCs' 7(a) loan portfolio default rate was 14.97 percent compared to 9.79 percent for other lender types (53 percent higher). Similarly, the early default rate for 7(a) loans made by SBLCs was 5.38 percent, more than double the 2.62 percent early default rate for loans made by other lender types.

While OCRM monitored SBLCs' 7(a) loan portfolio performance, it did not sufficiently assess the root cause of the SBLCs' loan portfolio underperformance, related to default rates, to mitigate the risk of loans made by SBLCs continuing to underperform.

In addition, although OCRM reviewed SBLCs' compliance with program requirements, our evaluation found that the two SBLCs accounting for more than 80 percent of SBLCs' defaults and early defaults continued to have repeated categories of deficiencies across multiple years. OCRM's monitoring procedures were not sufficient to ensure SBLCs implemented appropriate corrective actions to mitigate the risk of similar future loan deficiencies and financial loss.

Lastly, we noted that OCRM has not conducted safety and soundness examinations of SBLCs since April 4, 2023, due to contractual issues. Insufficient oversight of SBLCs increases the risk of financial loss and could negatively impact program integrity.

What OIG Recommended

We made three recommendations to improve SBLCs' 7(a) loan portfolio performance and SBA's oversight of SBLCs.

Agency Response

SBA management agreed with Recommendations 1 and 3 and partially agreed with Recommendation 2. Management's planned actions satisfy the intent of Recommendations 1, 2, and 3.

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Introduction

This report presents the results of our evaluation of Small Business Lending Companies' (SBLC) performance in the 7(a) loan program and the U.S. Small Business Administration's (SBA) oversight of SBLCs.

Background

An SBLC is a non-depository lending institution the SBA licenses and authorizes to make loans pursuant to Section 7(a) of the Small Business Act. An SBLC license allows the lending company to use government guarantees when underwriting small business loans to reduce the level of risk to the lender and cost to the borrower. SBLCs are positioned to make a higher volume of loans to small businesses because of the government guarantee and are:

- Supervised and examined solely by SBA at the federal level;
- Subject to additional SBA loan program requirements including, but not limited to, regulations specific to SBLCs regarding formation, capitalization, and enforcement actions; and
- Subject to all other 7(a) loan program requirements including, but not limited to, those specific to origination, servicing, and liquidation.

On January 4, 1982, SBA implemented a moratorium on licensing new SBLCs because it did not have adequate resources to effectively service and supervise additional SBLCs. The number of SBLC licenses remained unchanged at 14 until SBA lifted the moratorium on April 12, 2023. As of April 5, 2025, there were 16 SBLC licenses.

The Office of Credit Risk Management (OCRM) is responsible for monitoring, supervising, and overseeing SBA's lending partners, including SBLCs. OCRM oversees SBLCs' performance in the 7(a) loan program by conducting lender portal data analysis and risk-based reviews, such as targeted origination or early default reviews, on individual SBLCs at least once every 24 months. Additionally, once every 24 months, OCRM typically conducts safety and soundness examinations of individual SBLCs; however, it has not done so since 2023.

Objective

Our objective was to assess SBLCs' performance in the 7(a) loan program and SBA's oversight of SBLCs to ensure program integrity and mitigate financial loss.

Results

Opportunities exist for SBA to improve SBLCs' 7(a) loan portfolio performance and its oversight of these lenders. Our analysis of 7(a) loans identified that loans made by SBLCs significantly underperformed, related to default rates, compared to loans made by other lender types. In addition, SBLCs' 7(a) loan portfolio performance declined for loans approved and disbursed from fiscal years (FY) 2016 to 2023, as indicated by the significant increase in early defaults. While OCRM monitored SBLCs' 7(a) loan portfolio performance, it did not sufficiently assess the root cause of the SBLCs' loan portfolio underperformance, related to default rates, to mitigate the risk of loans made by SBLCs continuing to underperform and the risk of financial loss.

We also found that although OCRM reviewed SBLCs' compliance with program requirements, SBLCs continued to have repeated categories of deficiencies across multiple years. Additionally, OCRM has not conducted safety and soundness examinations of SBLCs since April 4, 2023. OCRM's monitoring procedures were not sufficient to ensure SBLCs implemented appropriate corrective actions for identified loan deficiencies that would mitigate the risk of similar future occurrences and financial loss. Further, the absence of safety and soundness examinations increases the risk that SBLCs' noncompliance with loan program requirements will not be identified, which could impact program integrity.

Finding 1: SBLCs' 7(a) Loan Portfolio Underperformance

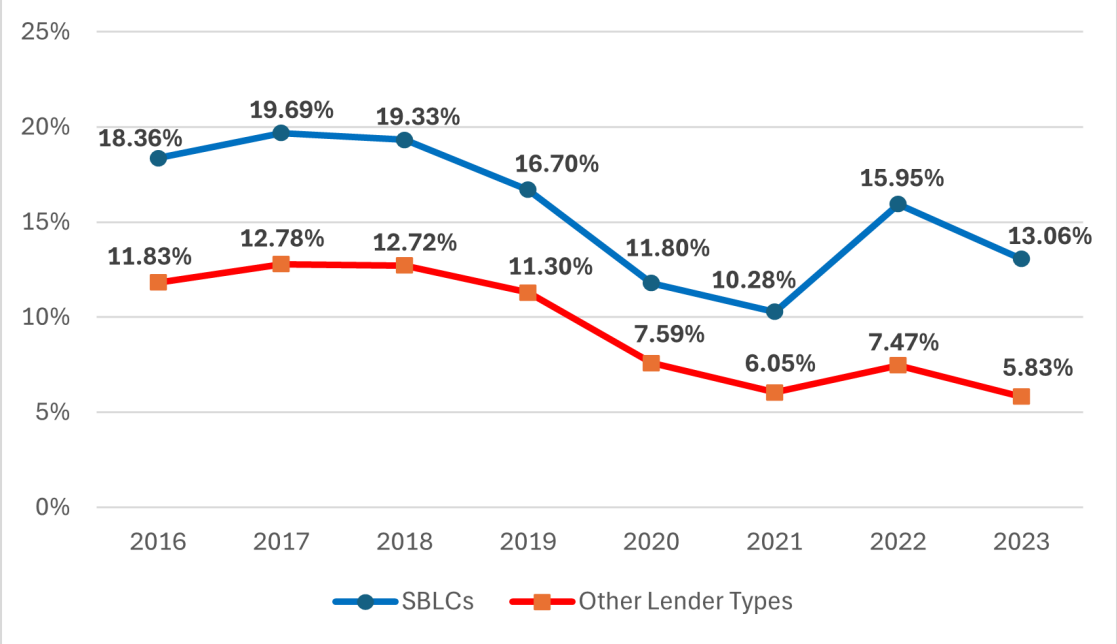
SBLCs' loan portfolio significantly underperformed in the 7(a) loan program, related to default rates, compared to the loan portfolio performance of other lender types.[1] In addition, SBLCs' loan portfolio performance declined for loans approved and disbursed from FYs 2016 to 2023, as indicated by the significant increase in early defaults.

[1] We compared SBLCs' 7(a) loan default rates to other lender types such as banks, credit unions, community advantage lenders, and state-regulated financial companies.

SBLCs' 7(a) Loan Portfolio Default Rates Compared to Other Lender Types

Our analysis of 7(a) loans approved and disbursed from FYs 2016 to 2023[2] identified that loans made by SBLCs defaulted at a significantly higher rate than loans made by other lender types, with the default rate for SBLCs peaking at 19.69 percent compared to 12.78 percent for other lender types. As of March 31, 2025, SBLCs' 7(a) loan portfolio default rate was 14.97 percent, which was 53 percent higher than the 9.79 percent default rate for other lender types.[3] In addition, SBLCs' 7(a) loan portfolio early default rate was 5.38 percent, more than double the 2.62 percent early default rate for other lender types.[4] The higher default and early default rates for loans made by SBLCs compared to loans made by other lender types spanned across multiple fiscal years (see Figures 1 and 2).

Figure 1: 7(a) Loan Default Rates for SBLCs and Other Lender Types, FYs 2016-2023



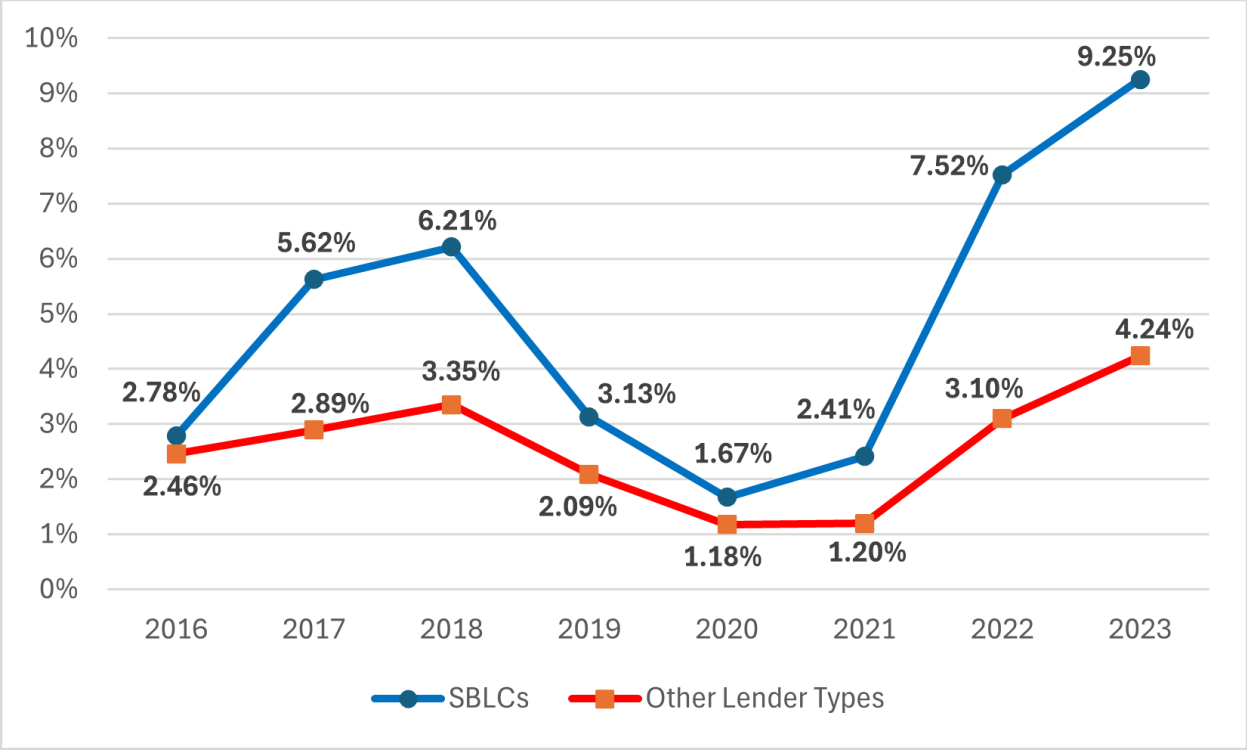
Source: SBA Office of Inspector General (OIG) analysis of data as of March 31, 2025.

[2] We analyzed 7(a) loans approved and disbursed beginning on October 1, 2015, to include loans from the period prior to the COVID-19 pandemic and their associated default rates.

[3] A default occurs when the borrower fails to make payment when due or has experienced other events of default, such as bankruptcy, that results in the lender classifying the loan in liquidation status and/or requesting guaranty purchase. We based the default rate on the number of 7(a) loans approved and disbursed from October 1, 2015, through September 30, 2023, that defaulted as of March 31, 2025.

[4] An early default occurs within 18 months of the loan's disbursement. We based the early default rate on the number of 7(a) loans approved and disbursed from October 1, 2015, through September 30, 2023, that defaulted within 18 months of the loan disbursement.

Figure 2: 7(a) Loan Early Default Rates for SBLCs and Other Lender Types, FYs 2016-2023



Source: SBA OIG analysis of data as of March 31, 2025.

The default and early default rates for both SBLCs and other lender types were lower for 7(a) loans approved in FYs 2020 and 2021 compared to those approved in FYs 2016 through 2019. This was due, in part, to the Coronavirus Aid, Relief, and Economic Security (CARES) Act providing 6 months of payments on 7(a) loans in FYs 2020 and 2021. Further, although the increases in default and early default rates for 7(a) loans approved in FYs 2022 and 2023 were potentially due to higher interest rates in effect on and after December 19, 2024, the SBLCs' default and early default rates were more than double the rates for other types of lenders.

SBLCs' 7(a) Loan Portfolio Performance in the 7(a) Loan Program

From FYs 2016 to 2023, SBLCs approved and disbursed 11,068 7(a) loans, totaling $9.5 billion. Of these, 1,657 had defaulted as of March 31, 2025, with $1.3 billion transferred to liquidation.[5] Both the size of the SBLCs' 7(a) loan portfolio, as well as its loan performance, changed significantly for loans approved and disbursed during this same period. Specifically, the number of loans, total loan amount, number of defaulted loans, and number of early defaulted loans all generally increased (see Table 1). In addition, although the number of loans increased by 171 percent, the number of early defaulted loans increased by 800 percent.

Table 1: SBLCs' 7(a) Loan Approvals from FYs 2016 to 2023 and Defaults

Approval Fiscal Year	Number of Loans	Loan Amount	Number of Defaults	Number of Early Defaults
2016	719	$561,581,893	132	20
2017	889	$854,790,379	175	50
2018	1,159	$1,129,823,705	224	72
2019	1,150	$1,064,210,406	192	36
2020	898	$958,489,150	106	15
2021	1,995	$2,073,688,547	205	48
2022	2,313	$1,584,129,521	369	174
2023	1,945	$1,307,818,000	254	180
Total	**11,068**	**$9,534,531,601**	**1,657**	**595**

Source: SBA OIG analysis of data as of March 31, 2025.

Our analysis of the SBLCs' 7(a) loan portfolio identified that two SBLCs originated and disbursed 69 percent of the loans originated and disbursed by SBLCs, totaling $5.7 billion, from FYs 2016 to 2023. The defaulted and early defaulted 7(a) loans for these two SBLCs represented 84 percent of the total number of defaulted loans and 88 percent of the total number of early defaulted loans attributed to SBLCs.

[5] Lenders move a loan into liquidation status when there has been a default event and the lender has determined that the borrower cannot or will not keep the loan current through regular payments.

This occurred because OCRM did not sufficiently assess the root cause of SBLCs' 7(a) loan portfolio underperformance, related to default rates, to mitigate the associated risks. According to OCRM officials, SBLCs' loan portfolio underperformance in the 7(a) program occurred because SBLCs are transaction-based lenders and do not have other relationships with the borrowers. OCRM officials also stated that SBLCs have a different client base than other SBA lenders and serve as the lender of last resort.

OCRM officials acknowledged that they have concerns related to the risk profiles of individual SBLCs; however, they do not have concerns with the loan portfolio performance of the general SBLC population. According to OCRM officials, they took multiple supervisory actions against the SBLC with the highest default rate that were directly rooted in performance deficiencies. However, the loan default and early default rates show those actions were not effective in improving loan performance.

Even though SBLCs' loan portfolio underperformance, related to default rates, is likely partially inherent to their being transaction-based lenders with no other relationship with the borrower, they are subject to the same 7(a) program requirements as other lenders, such as for eligible uses of proceeds, loan terms and conditions, and credit standards. SBLCs must also comply with requirements for SBA lenders and supervised lenders. Therefore, SBLCs operate under the same SBA lending standards as other lenders to mitigate risks associated with the 7(a) loan portfolio.

Although OCRM took supervisory actions and continued to monitor SBLCs' 7(a) loan portfolio performance using its lender performance report, lender portal, and risk-based reviews, we believe additional assessments are needed to determine why SBLCs' 7(a) loan portfolio had significantly higher default rates, compared to other lender types. Further, their default rates on 7(a) loans approved and disbursed in FYs 2024 and 2025 were significantly higher compared to loans made by other lender types. Specifically, as of September 30, 2025, SBLCs' default rate for these loans was 4.56 percent, which is more than double the 1.90 percent default rate for other lender types. The default rates will likely continue to increase as these recently approved and disbursed loans continue to age. Increased purchases of defaulted loans may result in financial loss to the 7(a) loan program.

Recommendation

To address SBLCs' 7(a) loan portfolio underperformance, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Conduct an analysis to effectively assess the root cause of the SBLCs' 7(a) loan portfolio underperformance, related to default rates, and implement processes and procedures to mitigate the identified risks.

Finding 2: SBA's Oversight of SBLCs Needs Improvement

We found that although OCRM monitored SBLCs' performance and compliance with program requirements, identified numerous repeated categories of deficiencies, and issued recommended corrective actions, its oversight was not effective in improving SBLCs' compliance with 7(a) loan program requirements. OCRM performs a variety of risk-based reviews on SBLCs, such as targeted origination, targeted early default reviews, and other reviews based on areas of concern. These reviews generally include a file review component that assesses compliance of selected loans with SBA loan program requirements.

We evaluated 18 risk-based reviews—including 4 targeted origination reviews, 11 targeted early default reviews, and 3 other types of reviews—and 1 examination report[6] conducted or issued between October 1, 2021, and March 31, 2025, for 2 SBLCs. These SBLCs originated and disbursed 69 percent of loans from FYs 2016 to 2023 and represented over 80 percent of the total number of defaulted and early defaulted loans as of March 31, 2025.[7] Our analysis identified repeated categories of deficiencies that occurred across multiple fiscal years, despite recommended corrective actions and informal enforcement actions implemented by SBA. See Table 2 for some of the most common repeated categories of deficiencies for the two SBLCs.

[6] Based on our review, this was the only examination report that OCRM issued related to the two SBLCs during our scope period.

[7] One of the two SBLCs did not originate 7(a) loans under its SBLC license after April 2023, due to the acquisition of a bank by its parent company that is now operating as a traditional 7(a) lender.

Table 2: Repeated Categories of Deficiencies for the Two SBLCs

Category of Deficiency*	Number of Deficiencies**	Example of Deficiencies
Other core requirements	31	SBLCs did not request, receive, and reconcile IRS transcripts and did not obtain required insurance documentation.
Loan closing and disbursement	26	SBLCs did not obtain required lien positions.
7(a) program fees	10	SBLCs charged prohibited fees.
Secondary market sale	14	SBLCs did not close loans in accordance with SBA's loan program requirements.
Eligibility	20	SBLCs did not ensure borrowers met SBA loan program requirements for eligible passive businesses.
Use of proceeds	15	SBLCs did not ensure borrowers used loan proceeds in accordance with SBA's loan program requirements for debt refinancing.
Technical exceptions	21	SBLCs' documentation contained incomplete and inaccurate forms, including SBA Form 1919, Borrower Information Form; Form 1920, Lender's Application for Loan Guaranty; Form 1050, Settlement Sheet; and Form 159, Fee Disclosure and Compensation Agreement.

*We obtained the categories of deficiency from the SBA reports. Where not specified, we categorized the deficiency based on where its criteria was cited in the standard operating procedures or Code of Federal Regulations.

**We counted the number of times a deficiency appeared in the risk-based reviews and the examination report and categorized each one. One deficiency may impact one or more loans.

Source: SBA OIG analysis of risk-based reviews and examination report.

Our evaluation of the examination report also identified repeated categories of deficiencies identified in a prior examination that were not resolved, such as issues with the SBLC's internal control policy and errors in properly executing SBA Form 159.

According to federal law, OCRM is responsible for supervising any lender making loans under Section 7(a) and any small business lending company, as well as overseeing SBLCs by conducting

periodic reviews of their compliance and performance.[8] Office of Management and Budget (OMB) guidance states that agencies should establish specific procedures to take appropriate action any time there is significant and/or continuing nonconformance with agency standards.[9] Further, the U.S. Government Accountability Office's (GAO) Standards for Internal Controls in the Federal Government recommends that management consider whether current controls address the identified issues and modify controls if necessary.[10]

SBLCs continued to have repeated categories of deficiencies across multiple fiscal years because OCRM's oversight procedures were not sufficient to ensure that SBLCs implemented appropriate corrective actions for loan deficiencies identified during risk-based reviews or examinations. Implementing additional procedures would mitigate the risk of similar future occurrences and financial loss. Our evaluation of targeted origination reviews and an examination report identified that OCRM included specific recommended corrective actions to address loan deficiencies and obtained SBLCs' responses to those corrective actions. OCRM officials stated they flagged these loans by adding a note in the Centralized Loan Chron System for additional review if a guaranty purchase is requested. However, OCRM did not ensure the SBLCs implemented the corrective actions recommended by validating the responses obtained in the targeted origination reviews or the examination report.

According to OCRM officials, for targeted origination reviews, they relied on SBLCs' responses to ensure lenders' understanding of the requirements and willingness to improve compliance while continuing to assess compliance with their recommendations by testing the same protocols in subsequent reviews. For the examination report, OCRM obtained the SBLC's responses after the report was issued but did not evaluate them. OCRM officials stated they do not routinely assess documentation provided after they complete the file review.

Further, our evaluation of targeted early default reviews identified that corrective actions and SBLCs' responses are not part of the documentation for these reviews. According to OCRM officials, they did not require SBLCs to respond because the primary intent of the targeted early default review is to identify potential deficiencies that may impair the guaranty. OCRM officials indicated that loans with deficiencies were flagged in their system for additional review. For identified loan deficiencies, OCRM suggested SBLCs review the deficiencies; identify other loans that may have the same deficiencies and determine what action should be taken for those loans;

[8] 15 U.S.C. §657t.
[9] OMB Circular A-129, *Policies for Federal Credit Program and Non-Tax Receivables*, September 2024.
[10] GAO-14-704G, Standards for Internal Control in the Federal Government, September 2014.

evaluate the need to improve any policies, procedures, and/or internal controls; and take appropriate action to ensure compliance going forward.

OCRM officials also stated that for targeted early default reviews they rely on the identification of these same deficiencies in other types of risk-based reviews that require SBLCs to respond, such as targeted origination reviews. However, as stated earlier, OCRM did not ensure recommended corrective actions were implemented in targeted origination reviews, therefore, it did not mitigate the risk of similar future loan deficiencies.

According to federal regulations, SBA lenders and intermediaries must respond to report findings, recommendations, and corrective actions, if any, in writing to SBA and, if requested, submit proposed corrective actions.[11] SBA will provide written notice of whether the response and, if applicable, any corrective action, is approved, or whether SBA will seek additional information or require other action.[12]

OCRM's oversight procedures for SBLCs were not sufficient to ensure that SBLCs implemented appropriate corrective actions to address loan deficiencies. As a result, there is an increased risk that underperforming SBLCs with repeated categories of deficiencies will continue to participate in SBA's 7(a) loan program. This could jeopardize the integrity of the program, increase the risk of financial loss, and affect SBA's ability to effectively meet its mission of helping Americans start, grow, and build resilient businesses.

Recommendation

To address improvements needed in SBA's oversight of SBLCs, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 2: Modify OCRM's oversight procedures to ensure SBLCs implement appropriate corrective actions to address loan deficiencies identified during risk-based reviews or examinations to promote program integrity and mitigate the risk of similar future occurrences and financial loss.

[11] 13 C.F.R. §120.1055(b).
[12] 13 C.F.R. §120.1055(c).

Other Matter: Safety and Soundness Examinations

During a safety and soundness examination, OCRM assesses the SBLC's financial condition, including the lender's capital, earnings, and liquidity; corporate governance, such as the performance of the board; effectiveness of policies, standards, and procedures; and the adequacy of internal controls. OCRM also reviews loan portfolio performance, asset management, regulatory compliance, risk management, and special items (PARRiS) components, which identify quantitative and qualitative risk factors of a lender's behavior, such as compliance with SBA loan program requirements.

In comparison, during the risk-based reviews, OCRM generally focused on one or more PARRiS component or other area of concern identified as requiring a targeted scope. In addition, although OCRM examined loan files in some types of risk-based reviews, the number of files reviewed was significantly fewer than those reviewed during safety and soundness examinations.

OCRM officials acknowledged that safety and soundness examinations provide a higher level of assurance of a lender's soundness and compliance with program requirements than risk-based reviews. However, we found that OCRM did not conduct safety and soundness examinations of SBLCs from April 4, 2023, to March 31, 2025. According to 13 C.F.R. §120.1050, SBA may conduct safety and soundness examinations of SBA-supervised lenders. OCRM officials stated that they did not have a contractor with adequate training and expertise to conduct the safety and soundness examinations and are awaiting approval to solicit a contract to assist with future examinations.

As a result, SBLCs have not been subject to the increased oversight associated with safety and soundness examinations since April 2023. This occurred at the same time SBA lifted the moratorium on licensing new SBLCs and announced it was expanding the number of eligible SBLC licenses. We acknowledge OCRM is not required to conduct safety and soundness examinations; however, we believe not conducting these examinations increases the risk that SBLCs' noncompliance with loan program requirements will not be identified, which could jeopardize the integrity of the program and increase the risk of financial loss.

Recommendation

To address potential increased risk of SBLC noncompliance with loan requirements, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 3: Assess the risks associated with not conducting safety and soundness examinations for SBLCs and, based on the results, establish and implement a plan to ensure identified risks are mitigated.

Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in Appendix 2. Management stated that while they largely disagree with the draft report, they acknowledge the opportunities to strengthen oversight activities, as reflected in their response. Management agreed with Recommendations 1 and 3 and partially agreed with Recommendation 2. Management's planned actions for Recommendations 1, 2, and 3 satisfy the intent; therefore, the recommendations are resolved and can be closed when management provides evidence that they have implemented planned actions.

In their overall response, management stated that their data analysis shows most SBLCs consistently had lower default rates than the overall 7(a) loan portfolio, and that a single SBLC was the primary driver of elevated default and early default rates. Management noted that excluding this SBLC from the analysis, the remaining SBLCs outperformed the cumulative 7(a) portfolio between FYs 2016 and 2019. Management further noted that the SBLC was placed under increased supervision in December 2019 and entered into a voluntary agreement in March 2020 prior to it ceasing 7(a) loan operations in April 2023. Management asserted that the inclusion or exclusion of this SBLC materially affects the results and related conclusions and provided several tables to support this position.

We acknowledge management's assessment that one SBLC significantly contributed to SBLCs' underperformance between FYs 2016 and 2019. However, our analysis shows this SBLC was not the sole driver, or root cause, of SBLCs' underperformance for loans approved and disbursed from FYs 2016 through 2023. Our report identified that two SBLCs accounted for more than 80 percent of the total number of defaulted and early defaulted loans attributed to SBLCs.

Moreover, the tables management provided show that even after excluding the one SBLC, the SBLCs' cumulative default and early default rates remained significantly higher than the overall 7(a) portfolio's cumulative rates in FYs 2022 and 2023. We also believe it is inappropriate to exclude the largest SBLC lender from an analysis of SBLCs' performance, as doing so would not provide an accurate picture of the SBLCs' 7(a) loan universe.

Further, the default rate for SBLCs remained elevated compared to other lender types even after the SBLC with the highest number of defaults ceased originating loans in April 2023. As stated in our report, our analysis of loans approved and disbursed in FYs 2024 and 2025, as of September 30, 2025, showed that SBLCs' default rate was 4.56 percent—more than double the 1.90 percent default rate for other lender types. This demonstrates that SBLCs' underperformance has persisted independent of the one SBLC's participation in the program. We also noted that the SBLC did not originate 7(a) loans under its SBLC license after April 2023; its parent company acquired a bank, and that bank is now operating as a traditional 7(a) lender, which may continue to pose a risk to the program.

Summary of Actions Necessary to Close Recommendations

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

Recommendation 1

To address SBLCs' 7(a) loan portfolio underperformance, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to conduct an analysis to effectively assess the root cause of the SBLCs' 7(a) loan portfolio underperformance, related to default rates, and implement processes and procedures to mitigate the identified risks.

Status: Resolved

SBA management agreed with this recommendation, stating that going forward, OCRM will conduct a root-cause analysis of SBLC 7(a) portfolio performance that controls for lender concentration and disbursement volume and will implement enhanced monitoring procedures responsive to early signs of performance deterioration in individual SBLCs. Management stated they plan to implement corrective action by March 31, 2027.

This recommendation can be closed when management provides evidence of the analysis conducted to effectively assess the root cause of the SBLCs' 7(a) loan portfolio underperformance related to default rates, and the processes and procedures implemented to mitigate the identified risks.

Recommendation 2

To address improvements needed in SBA's oversight of SBLCs, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to modify OCRM's oversight procedures to ensure SBLCs implement appropriate corrective actions to address loan deficiencies identified during risk-based reviews or examinations to promote program integrity and mitigate the risk of similar future occurrences and financial loss.

Status: Resolved

SBA management partially agreed with this recommendation, stating they do not accept the premise that their oversight was broadly ineffective but will modify procedures to validate that SBLCs implement recommended corrective actions from safety and soundness examinations and risk-based reviews, including documented follow-up and escalation where remediation does not occur. Management also requested that OIG reverse repeat deficiency counts attributable to the SBLC for reports issued after it ceased 7(a) loan originations and re-group remaining deficiencies by identical Standard Operating Procedures (SOP) or Code of Federal Regulations (CFR) criteria. Management stated they plan to implement corrective action by June 30, 2027.

We clarify that our report does not conclude that SBA's oversight of the general SBLC population was broadly ineffective. Our evaluation covered the risk-based reviews and examination report for the two SBLCs responsible for the majority of SBLCs' loan disbursements (69 percent), defaulted loans (84 percent), and early defaulted loans (88 percent). While we found that SBA reviewed SBLCs' compliance with program requirements, we identified that these lenders continued to exhibit repeated categories of deficiencies across multiple years.

Additionally, regarding management's request for OIG to reverse the repeat deficiency counts for the SBLC that ceased 7(a) originations, we believe our assessment included in the report is accurate. Specifically, although SBA issued targeted early default risk-based reviews of this SBLC after it stopped originating new loans, the agency did not mitigate the risk of similar future loan deficiencies because it did not address the deficiencies they identified through corrective actions. Our evaluation found that targeted early default reviews do not specify corrective actions or require SBLC responses; instead, SBA relies on other types of risk-based reviews—such

as targeted origination reviews, which require an SBLC response—to identify and address the same deficiencies. However, as SBA did not conduct targeted origination reviews after the SBLC stopped originating loans, there was no mechanism to identify similar deficiencies or recommend corrective actions. As a result, the underlying deficiencies may not have been resolved.

Further, regarding management's request for OIG to re-group remaining deficiencies by identical SOP or CFR criteria, we believe our assessment included in the report is accurate. Specifically, while we acknowledge that deficiencies identified in SBA's risk-based reviews may not be identical, we classified deficiencies into categories based on the categories listed in SBA's reports and, where a category was not specified, based on the SOP or CFR criteria cited. Further, a single category of deficiency may affect more than one loan, potentially indicating a more significant issue involving the lender's compliance with program requirements.

This recommendation can be closed when management provides evidence that they have modified their oversight procedures to ensure SBLCs implemented appropriate corrective actions to address loan deficiencies identified during risk-based reviews or examinations to promote program integrity and mitigate the risk of similar future occurrences and financial loss.

Recommendation 3

To address potential increased risk of SBLC noncompliance with loan requirements, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to assess the risks associated with not conducting safety and soundness examinations for SBLCs and, based on the results, establish and implement a plan to ensure identified risks are mitigated.

Status: Resolved

SBA management agreed with this recommendation, stating they will complete a documented risk assessment and a mitigation plan with milestones. Management stated they plan to implement corrective action by June 30, 2027, with procurement contingent on required approvals.

This recommendation can be closed when management provides evidence that they assessed the risks associated with not conducting safety and soundness examinations for SBLCs and, based on the results, established and implemented a plan to mitigate identified risks.

Appendix 1: Scope and Methodology

This report presents the results of our evaluation to assess Small Business Lending Companies' (SBLCs) Performance in the 7(a) Loan Program and the U.S. Small Business Administration's (SBA) Oversight of SBLCs to ensure program integrity and mitigate financial loss. Our scope of work included 7(a) loans approved and disbursed from October 1, 2015,[13] through September 30, 2023. We assessed the defaults for loans made by SBLCs as of March 31, 2025,[14] and SBA's oversight of SBLCs from October 1, 2021, through March 31, 2025.

To accomplish our objective, we analyzed data of approved and disbursed 7(a) loans from October 1, 2015, through September 30, 2023, and as of March 31, 2025. Specifically, we obtained the number of 7(a) loans approved and disbursed, the loan amounts, and loan defaults by SBLC and other lender types to assess SBLC loan default rates compared to that of other types of 7(a) lenders. We also obtained the number of 7(a) loans approved and disbursed, the loan amounts, and loan defaults by individual SBLCs to assess individual loan portfolio performance and identify those with the highest volume of defaulted and early defaulted loans.

We further analyzed data of approved and disbursed 7(a) loans from October 1, 2023, through September 30, 2025, and as of September 30, 2025, to obtain the number of loan defaults by SBLC and other lender types and assess the loan default rates of SBLCs and other lender types for this period.

We reviewed relevant federal laws, regulations, policies, procedures, and guidance pertaining to SBLC monitoring, oversight, supervision, and enforcement. We also interviewed Office of Credit Risk Management (OCRM) officials to further understand related processes and procedures and to assess SBA's oversight of SBLCs. In addition, we reviewed OCRM's examination and risk-based review reports for the two SBLCs with the highest number of defaulted and early defaulted 7(a) loans to assess the deficiencies, recommended actions, and effects identified in those reports.

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

[13] Our scope includes an analysis of 7(a) loans approved and disbursed beginning in 2015 to show loan defaults prior to the COVID-19 pandemic.
[14] We assessed 7(a) loan defaults as of March 31, 2025, which is 18 months after September 30, 2023, to determine whether early defaults occurred.

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 SBA's electronic loan systems, including E-Tran, Mainframe, Partner Information Management System, and Guaranty Purchase System to conduct our evaluation. We performed limited testing on data extracts by validating fields in our data extracts, such as disbursement, default, and transfer to liquidation dates, and compared it to the information in SBA's electronic loan systems to ensure the data was complete, reliable, and met the scope parameters of this evaluation. Further, we reviewed the data reliability assessment from a prior SBA OIG engagement that used E-Tran data. We did not validate the accuracy of the data extracts to source documents because doing so would involve reviewing lender loan files and would be outside the scope of our review. We believe that the data used was sufficiently reliable to support our findings in this report.

Prior Audit Coverage

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

Report Number	Report Title	Report Date
25-08	*SBA's Awarding of Small Business Lending Company Licenses*	February 13, 2025
23-05	*White Paper: 7(a) Loan Program During SBA's Response to the COVID-19 Pandemic*	March 21, 2023
20-03	*Audit of SBA's Oversight of High-Risk Lenders*	November 12, 2019

Appendix 2: 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, Office of Inspector General

From: Edward R. Ledford, Deputy Director
Office of Credit Risk Management, Office of Capital Access

EDWARD LEDFORD
Digitally signed by EDWARD LEDFORD
Date: 2026.07.20 10:53:37 -04'00'

Date: July 10, 2026

Subject: Response to OIG Draft Report Small Business Lending Companies' Performance in the 7(a) Loan Program and SBA's Oversight (Project 25011)

As reflected in the responses below, the Small Business Administration's (SBA's) Office of Credit Risk Management (OCRM) disagrees with the majority of the Office of Inspector General's (OIG's) draft report.

OCRM's data indicates that most Small Business Lending Companies (SBLCs) consistently had lower default rates than the overall 7(a) loan portfolio with a single SBLC ("SBLC 1") being the primary driver of elevated default and early default rates. That SBLC was placed under Increased Supervision in December 2019 and entered into a Voluntary Agreement in March 2020 prior to it ceasing 7(a) loan originations in April 2023. As discussed in OCRM's response, the inclusion or exclusion of this SBLC materially affects the results and related conclusions.

OCRM also disagrees with the OIG's assessment of deficiencies identified by file review activities, particularly the characterization of repeat deficiencies. While some deficiencies were related, they were not sufficiently similar to warrant classification as repeat deficiencies. Additionally, 9 of the 10 reports cited in the OIG's repeat deficiency analysis were issued after the subject SBLC had ceased origination activity, eliminating the need for corrective action. Further, the OIG's evaluation applied expectations to early default risk-based reviews that are not aligned with their intended purpose and did not account for timing differences between loan approval dates and the initiation or issuance of risk-based reviews.

While OCRM largely disagrees with the draft report, it acknowledges opportunities to strengthen oversight activities, as reflected in its response.

Of note, at the end of SBA fiscal year 2025, SBA data reflects that SBLCs comprised less than 6.75 percent of the cumulative 7(a) loan portfolio's Gross Outstanding Amount.

SBLC Default Activity is Concentrated, Not Population-Wide

Default Rate. On a loan count basis, the majority of SBLC's routinely outperformed the cumulative 7(a) portfolio and, when SBLC 1 was removed, the group's cumulative default rate outperformed the cumulative 7(a) portfolio for five of the eight periods (62.5 percent).

Between FY16 and FY19, removal of SBLC 1 consistently resulted in the remaining SBLC's outperforming the cumulative 7(a) portfolio. The impact of removing SBLC 1 was not as material in FY20 and later. This is likely due to OCRM placing the Lender under Increased Supervision in December 2019 followed by a Voluntary Agreement in March 2020 and it ceased 7(a) loan originations in April 2023.

(%)	Cumulative Default Rate (#)							
	2016	2017	2018	2019	2020	2021	2022	2023
SBLC Total	19.9	20.3	23.0	22.3	15.8	14.3	21.9	23.4
SBLC Total excluding SBLC 1	10.9	12.5	13.7	12.6	11.3	8.3	17.7	20.2
7(a) Total	12.3	13.1	14.1	13.3	10.0	8.7	11.6	11.9
SBLC 1	27.7	29.0	33.0	30.9	25.0	21.9	27.2	30.0
SBLC 2	9.6	16.3	18.1	17.7	12.9	10.1	23.2	23.6
SBLC 3	0.0	3.1	12.0	6.4	9.0	5.8	8.7	9.0
SBLC 4	0.0	0.0	3.2	7.5	15.8	9.5	7.5	10.7
SBLC 5	21.1	37.0	22.8	28.3	28.3	19.5	17.6	28.9
SBLC 6	16.7	2.9	0.0	8.7	0.0	3.4	5.3	5.6
SBLC 7				0.0	0.0	0.0	0.0	0.0
SBLC 8				50.0	15.4	11.4	20.0	0.0
SBLC 9	9.1	14.8	6.7	3.6	12.1	10.0	16.7	14.8
SBLC 10	5.5	2.5	0.0	0.0	0.0			
SBLC 11		0.0		0.0	0.0			
SBLC 12							28.6	26.7
SBLC 13						0.0	0.0	
SBLC 14				0.0	4.8	0.0	23.1	23.5
SBLC 15	7.1	0.0	40.0	10.6	4.8	9.5	4.7	10.3

Early Default Rate. On a loan count basis, the majority of SBLC's routinely outperformed the cumulative 7(a) portfolio and, with the exclusion of SBLC 1, the remaining SBLC's cumulative early default rate outperformed the 7(a) cumulative portfolio four of eight fiscal years (50.0 percent).

As with the Default Rate, the impact of removing SBLC 1 was not as material in FY20 and later. This is likely due to OCRM placing SBLC 1 under Increased Supervision in December 2019 followed by a Voluntary Agreement in March 2020 and it ceased 7(a) loan originations in April 2023.

(%)	Cumulative Early Default Rate (#)							
	2016	2017	2018	2019	2020	2021	2022	2023
SBLC Total	3.2	3.6	5.0	2.8	1.2	1.2	4.8	6.8
SBLC Total excluding SBLC 1	1.5	2.2	2.4	1.1	0.9	0.5	3.5	5.7
7(a) Total	**1.8**	**2.0**	**2.6**	**1.7**	**0.8**	**0.7**	**1.9**	**3.4**
SBLC 1	4.7	5.1	7.7	4.2	1.6	2.2	6.5	9.0
SBLC 2	1.4	2.3	3.0	1.1	1.4	0.5	4.8	7.0
SBLC 3	0.0	1.0	1.6	0.7	1.1	0.0	1.2	1.5
SBLC 4	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0
SBLC 5	2.6	8.2	7.0	4.3	0.0	4.9	2.9	7.9
SBLC 6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SBLC 7				0.0	0.0	0.0	0.0	0.0
SBLC 8				50.0	7.7	0.0	10.0	0.0
SBLC 9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7
SBLC 10	2.2	0.0	0.0	0.0	0.0			
SBLC 11		0.0		0.0	0.0			
SBLC 12							4.8	8.9
SBLC 13						0.0	0.0	
SBLC 14				0.0	0.0	0.0	7.7	0.0
SBLC 15	0.0	0.0	6.7	0.0	0.0	1.1	0.0	4.4

In response to the OIG's comments related to Table 1, OCRM believes that the statement, "In addition, although the number of loans increased by 171 percent, the number of early defaulted loans increased by 800 percent." is true, but misleading. When comparing the early default loan count to the disbursement count for each fiscal year, the early default count as a percentage of the disbursement count increased 112.5 percent, which is still elevated, but a more accurate representation of performance based on default activity when disbursements are increasing.

All SBLCs						
Approval Fiscal Year	Disbursement Count	Loan Amount ($)	# Defaults	Defaults / Disbursement Count (%)	# of Early Default	Early Default / Disbursement Count (%)
2016	713	554,557,912.70	142	19.9	23	3.2
2017	867	836,251,762.55	176	20.3	31	3.6
2018	1,148	1,124,144,764.79	264	23.0	57	5.0
2019	1,162	1,065,930,605.85	259	22.3	32	2.8
2020	947	991,223,248.42	150	15.8	11	1.2
2021	1,853	1,874,061,441.83	265	14.3	23	1.2
2022	2,361	1,730,150,167.55	518	21.9	114	4.8
2023	1,887	1,297,735,988.46	441	23.4	128	6.8
	10,938	9,474,055,892.15	2,215		419	

As with the prior charts, SBLC performance improved significantly with the removal of SBLC 1 up until SBLC 1 was placed under Increased Supervision in December 2019 followed by a Voluntary Agreement in March 2020 and no additional 7(a) originations after April 2023.

With SBLC 1 Removed						
Approval Fiscal Year	Disbursement Count	Loan Amount ($)	# Defaults	Defaults / Disbursement Count (%)	# of Early Default	Early Default / Disbursement Count (%)
2016	331	259,988,539.70	36	10.9	5	1.5
2017	457	485,383,176.59	57	12.5	10	2.2
2018	593	681,380,022.67	81	13.7	14	2.4
2019	547	578,735,041.85	69	12.6	6	1.1
2020	635	724,975,498.42	72	11.3	6	0.9
2021	1,035	1,287,663,306.83	86	8.3	5	0.5
2022	1,304	1,037,962,173.42	231	17.7	45	3.5
2023	1,274	951,160,355.46	257	20.2	73	5.7
	6,176	6,007,248,114.94	889		164	

Finding 1:

OCRM disagrees that the general SBLC population underperformed. As illustrated above, the majority of SBLCs routinely outperformed the 7(a) total portfolio on a loan-count basis, and SBLC underperformance is primarily attributable to SBLC 1 until it was subject to Increased Supervision and entered into a Voluntary Agreement.

However, to reduce the default rates attributed to SBLCs, OCRM will improve its root-cause analysis on a go-forward basis.

Recommendation 1: Conduct an analysis to effectively assess the root cause of the SBLCs' 7(a) loan portfolio underperformance, related to default rates, and implement processes and procedures to mitigate the identified risks.

SBA Response: SBA agrees with this recommendation. On a go forward basis, OCRM will conduct a root-cause analysis of SBLC 7(a) portfolio performance that controls for lender concentration and disbursement volume and will implement enhanced monitoring procedures responsive to early signs of performance deterioration in individual SBLCs.

Final Action Target Date: Within 180 days of the final report.

Finding 2:

OCRM partially agrees with Finding 2. OCRM acknowledges that oversight of corrective-action implementation can be improved and will take steps to validate remediation and act when an SBLC does not remediate. OCRM disagrees with the basis for the finding for the reasons below.

- Of the 10 reports OIG included for SBLC 1, 9 were issued after the SBLC ceased 7(a) originations and all deficiencies were related to origination activities. As such, corrective action is not possible, and these reports should not be counted as evidence of ineffective corrective-action oversight.
- The OIG's treatment of deficiencies did not
    - group deficiencies by identical criteria, e.g., the specific CFR or SOP citation.
    - account for timing. A genuine repeat requires that a Safety and Soundness Examination or risk-based review which requires corrective action precede a later loan sample with approval dates leaving time for corrective actions to be implemented before the next sampling.
- Targeted Early Default risk-based reviews are not corrective-action instruments; they identify deficiencies that may impair the guaranty, often on very small samples (as few as one loan), and the SBLC 2 loan samples were largely originated before the relevant risk-based review reports that required corrective action were issued, e.g., the single FY 2023 ED loan was approved in July 2021, and the 2025 early default samples carry approvals from October 2022 through 2024; therefore, deficiencies in those loans do not reflect corrective actions taken afterward.

- OCRM's oversight of SBLC 2 was timely and escalating: OCRM placed SBLC 2 on Increased Supervision in February 2025, and SBLC 2 entered into a Voluntary Agreement in June 2025, evidencing appropriate, risk-based enforcement rather than ineffective monitoring.
- Several Table 2 examples in the OIG's report are overstated: failing to obtain a required lien position differs from lacking documentation that the lien was obtained, and a more accurate characterization is that supporting documentation (e.g., a final lien search) was generated after the loan was sold on the secondary market, the precise issue being that the lender executed SBA Form 1086 before obtaining all required documentation.

Recommendation 2: Modify OCRM's oversight procedures to ensure SBLCs implement appropriate corrective actions to address loan deficiencies identified during risk-based reviews or examinations to promote program integrity and mitigate the risk of similar future occurrences and financial loss.

SBA Response: SBA partially agrees with this recommendation. OCRM does not accept the premise that its oversight was broadly ineffective but will modify its procedures to validate that SBLCs implement recommended corrective actions from Safety and Soundness Examinations and risk-based reviews, including documented follow-up and escalation where remediation does not occur.

OCRM requests that OIG (a) reverse repeat-deficiency counts attributable to SBLC 1 reports issued after it ceased 7(a) loan originations and (b) re-group remaining deficiencies by identical SOP/CFR criteria.

Final Action Target Date: Within 270 days of the final report.

Other Matter and Recommendation 3:

OCRM agrees with Recommendation 3. OCRM acknowledges it has not conducted safety and soundness examinations of SBLCs since April 2023, due to the lack of contractor support and is awaiting approval to solicit a contract to support future safety and soundness examinations unless another viable solution becomes available.

- OCRM will assess the risks associated with the pause in safety and soundness examinations, including the interaction with the lifted SBLC licensing moratorium and the expansion of the number of SBLC licenses, and will establish and implement a plan to mitigate identified risks, including interim risk-based review coverage.
- In the interim, OCRM has continued to oversee SBLCs through lender portal data analysis, the lender performance report, and risk-based reviews, and will document how that coverage mitigates the gap until safety and soundness examinations, or an oversight activity with a similar level of assurance, resume.

Recommendation 3: Assess the risks associated with not conducting safety and soundness examinations for SBLCs and, based on the results, establish and implement a plan to ensure identified risks are mitigated.

SBA Response: SBA agrees with this recommendation. OCRM will complete a documented risk assessment and a mitigation plan with milestones.

Final Action Target Date: Within 270 days of the final report, with procurement contingent on required approvals.

OCRM appreciates the opportunity to review and comment on the draft report and looks forward to working with OIG to strengthen the 7(a) program and SBA's oversight of SBLCs.