

# GAO Highlights

Highlights of [GAO-14-233](#), a report to congressional requesters

## Why GAO Did This Study

Title V of the Small Business Investment Act of 1958 established what is commonly referred to as the “504 loan program” to provide small businesses with financing for long-term fixed assets, such as land and buildings. SBA oversees the program, and about 270 CDCs issue “504 loans” that generally cover up to 40 percent of project costs. The program aims to encourage economic development primarily by enabling small businesses to create or retain jobs within their communities. This report examines (1) the lending standards and performance measures SBA has established to help ensure that loans meet key requirements, as well as 504 loan performance, and (2) SBA’s processes for reviewing CDCs’ eligibility to participate in the program, loan applications, and CDCs’ compliance with program requirements. GAO analyzed SBA data, SBA’s lending standards and compliance process documentation, and interviewed SBA officials and 10 CDCs selected based on factors such as size and location.

## What GAO Recommends

GAO recommends that SBA issue guidance on calculating jobs created and retained, expand its review of CDCs’ annual reports and risk-based reviews of selected CDCs to include assessment of data on jobs supported and compliance with the retained-earnings requirement, and expand its process for renewing the delegated authority of certain CDCs to include a review of CDCs’ certifications of borrowers’ ability to repay made prior to loan closing. SBA generally agreed with the recommendations and outlined steps it plans to take in response.

View [GAO-14-233](#). For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

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## SMALL BUSINESS ADMINISTRATION

### Actions Needed to Ensure Planned Improvements Address Key Requirements of the Development Company (504) Loan Program

## What GAO Found

The Small Business Administration (SBA) has established lending standards to protect against default and has measured program performance, but lacks guidance on determining the number of jobs supported by 504 program-funded projects. SBA’s guidance for certified development companies (CDC)—nonprofits that provide funding to small businesses to promote local economic development in their communities and are certified by SBA—includes credit underwriting standards for determining ability to repay. SBA also has established performance indicators—such as the number of small businesses assisted and jobs supported—for the 504 loan program. However, SBA does not describe how CDCs should calculate jobs created and retained by 504 projects, a key program requirement. Federal internal control standards require control activities that help participants report information accurately. Without specific guidance, SBA cannot ensure that CDCs are calculating this information consistently or accurately. GAO’s analysis of SBA data showed that 504 loans approved in fiscal years 2006 through 2008 had the highest 18-month default rates, which correlated with trends in the private sector for commercial real estate loans.

SBA has processes to review (1) CDCs’ eligibility to participate in the 504 program, (2) loan applications, and (3) CDCs’ compliance with program requirements. The agency is revising some of these processes and expects to finalize the changes by June 2014. However, GAO identified two key areas where additional improvement is needed:

- **Jobs supported and retained earnings.** SBA has guidance for reviewing CDCs’ annual reports (used to assess CDC eligibility) and for risk-based reviews of CDCs’ compliance with program requirements. However, this guidance does not require SBA staff to review supporting documentation on jobs supported or assess whether CDCs are investing retained earnings in local economic development, as required by regulation. Federal internal control standards require control activities to ensure that program participants report information accurately and comply with requirements. Without reviewing CDCs’ information on jobs data and compliance with the retained-earnings requirement, SBA cannot be assured that information on jobs supported is accurate and CDCs are supporting economic development activities as required.
- **Certification by CDCs with delegated authority.** SBA provides initial approval for a 504 loan upon application, but the 504 loan is not closed until after project-related construction is complete (which can be up to 4 years after initial approval). SBA has delegated to certain CDCs additional authority to close a 504 loan. For example, at closing CDCs with this delegated authority can certify that borrowers are still able to repay a 504 loan rather than submit documentation to SBA for approval, as regular CDCs are required to do. SBA renews delegated authority periodically but does not verify that CDCs can support these certifications. Federal internal control standards require agencies to verify compliance with requirements. Without verifying these certifications, SBA lacks assurance that CDCs with delegated authority are following program requirements.