



U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

ADVISORY MEMORANDUM

Issue Date: February 17, 2006

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To: Herbert P. Mitchell
Assistant Administrator,
Office of Disaster Assistance

From: /S/ **Original Signed**
Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Disaster Application Referrals with "\$0 Income" from FEMA Online Registration have Increased Costs and the Demand for SBA Resources

The purpose of this memorandum is to inform SBA of the impact of disaster applicant referrals with "\$0 Income" or with the pre-disaster income field left blank from FEMA's Individual Assistance Center Online Registration. The lack of a screening process or qualifying criteria in this field has needlessly increased the volume of referrals of applicants to the SBA disaster assistance program.

The FEMA Individual Assistance Center currently allows disaster victims to register on the Internet for assistance. As part of this on-line registration FEMA allows disaster victims to avoid reporting income by using the "Income Unavailable/Refused" checkbox when completing applications for disaster assistance. These unreported incomes are referred to in SBA as "\$0 Income" applications. Despite the obvious disqualification of a loan applicant with "\$0 Income," SBA still needs to go through its normal loan process because a "\$0 Income" applicant may, in fact, have income but just refused to disclose it through an internet web site. Through interviews with both FEMA and SBA field personnel we identified that many of these FEMA "\$0 Income" on-line referrals ultimately failed SBA minimum criteria for disaster loan eligibility and were processed as summary declines for SBA loan activity. According to FEMA, these applicants generally would not have been referred to SBA under other FEMA registration methods such as telephonic or personal interviews. Additionally, according to an SBA representative, the vast majority of "\$0 Income" referrals (ranging up to 99 percent) came from the FEMA website.

Under the operating procedures of SBA's Office of Disaster Assistance the following occurs: (1) The disaster victims receive a disaster loan application from SBA due to the referral from the FEMA website, (2) The disaster victim completes and mails

the disaster loan application to SBA, (3) SBA scans and inputs the completed application into the Disaster Credit Management System (DCMS), and (4) SBA performs pre-processing decline procedures, e.g., the application is credit scored and evaluated by a SBA loan officer.

The current impact to SBA from FEMA online registration “\$0 Income” referrals includes:

- Costs incurred by SBA in mailing loan applications to disaster victims that normally would not be referred to SBA’s disaster loan program,
- Costs incurred by SBA in processing those loan applications received back from disaster victims:
 - Application entry into DCMS,
 - Scanning of loan documents into DCMS,
 - Loan Officer resources,
- Lower SBA Disaster Loan approval rates,
- Delayed response times for those applicants who do actually qualify for the SBA disaster loan program, and
- Increased transaction flow through DCMS which is near its maximum capacity. DCMS will be substantially upgraded within the next year and will be able to process more disaster loan referrals in the future.

In addition, the disaster applicants are delayed from consideration for certain aspects of FEMA Other Needs Assistance (ONA) grants including personal property, transportation, and moving and storage needs assistance until a determination is made on the outstanding loan application submitted to SBA.

While our limited scope review surfaced anecdotal information as to the impact of processing “\$0 Income” referrals to SBA, the table below summarizes the increase in SBA referrals over previous disasters (these statistics were provided by SBA personnel and not validated with FEMA). As of January 9, 2006, the rate of disaster victims requesting SBA loans as compared to FEMA referrals located in Louisiana for Hurricane Katrina was 80.8 percent (1,068,617 FEMA disaster registrations / 863,528 SBA loan application referrals). In comparison, the referral rate average for Louisiana disaster declarations from 1998 to 2004 was 37.4 percent (317,617 FEMA disaster registrations / 118,610 SBA loan application referrals).

State	Declaration Year	FEMA Registrations	SBA Referrals	Referral Rate
LA	1998	22,178	9,017	40.7%
LA	1999	573	373	65.1%
LA	2001	100,586	37,484	37.3%
LA	2002	176,839	66,254	37.5%
LA	2004	17,212	5,491	31.9%
	Totals	317,388	118,619	37.4%
LA	2005	1,068,617	863,528	80.8%

Prior to 2005, telephonic and personal interviews were primarily used to determine if an individual should even apply for SBA disaster assistance. While the scope of Hurricanes Katrina, Rita, and Wilma taken together has been unprecedented, we have concluded that a significant part of the percentage increase in disaster loan submissions is due to the Internet on-line "\$0 Income" applications from the FEMA website.

A draft of this advisory memorandum was provided to the SBA Office of Disaster Assistance (ODA) for comments. The ODA acknowledged the problem with "\$0 Income" referrals and generally agreed with the report findings. ODA offered several possible solutions and agreed that it should work with FEMA to improve their joint screening process prior to referral and issuing an SBA disaster loan application. We also modified the report to acknowledge that DCMS is being upgraded in the near future.

We recommend that SBA:

1. Improve its screening processes within DCMS when processing "\$0 Income" referrals
2. Work with FEMA to provide for a continuing improvement process whereby screening potential disaster victims within FEMA's Individual Assistance Center Online Registration website is improved to reduce unnecessary online disaster referrals.

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Our review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricane Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group which is coordinating Inspectors General review of this important subject. The nature and brevity of this assessment precluded the use of our normal audit protocols; therefore, this review was not conducted in accordance with generally accepted government auditing standards. Had we followed such standards, other matters might have come to our attention.

Please advise the OIG by March 3, 2006 of the actions taken or the planned actions and the target correction dates for any planned actions. If you have any questions, please contact Jeff Brindle, Director of the IT and Financial Management Audit Group at (202) 205-7490.

cc: Stephen D. Galvan, Chief Operating Officer