

GAO Highlights

Highlights of [GAO-13-727](#), a report to congressional requesters

Why GAO Did This Study

In June 2007, SBA established the Patriot Express Pilot Loan Program within its 7(a) loan guarantee program to provide small businesses owned and operated by veterans and other eligible members of the military community access to capital. Through Patriot Express, SBA guarantees individual small business loans that lenders originate. GAO was asked to evaluate the program. This report examines (1) trends in the volume and performance of Patriot Express and related SBA loan programs; (2) the effect of the program on eligible members of the military community; and (3) SBA internal controls to ensure that only eligible borrowers participate. GAO analyzed data on performance and costs of Patriot Express and other similar SBA loan programs from 2007 through 2012; interviewed selected borrowers, lenders, and veteran service organizations; and reviewed SBA internal control guidance on borrower eligibility.

What GAO Recommends

SBA should design and implement an evaluation plan to assess how well the Patriot Express pilot is achieving program objectives and goals and serving the needs of veterans and eligible borrowers. Going forward, SBA should include an evaluation plan as part of any pilot programs initiated under its own authority and consider the results of the evaluation when deciding whether to extend or terminate a pilot. Further, SBA should enhance internal controls over borrower eligibility requirements. SBA said that it will consider the findings from this report as it reviewed the extension of the Patriot Express pilot.

View [GAO-13-727](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

PATRIOT EXPRESS

SBA Should Evaluate the Program and Enhance Eligibility Controls

What GAO Found

Patriot Express loans valued at about \$703 million have defaulted at a higher rate than loans under the Small Business Administration's (SBA) other related loan guarantee programs, and losses for Patriot Express have exceeded its income. With the exception of loans approved in 2007, Patriot Express loans have defaulted at a higher rate than loans made under SBA's main 7(a) program or loans made under SBA's streamlined loan guarantee program (SBA Express). The Patriot Express program's overall default rate was significantly higher for smaller loans, especially for loans below \$25,000 (20 percent). Additionally, one lender accounted for more than 64 percent of these smaller loans and experienced higher default rates than the remaining lenders. From 2007 through 2012, losses in the Patriot Express program exceeded income by \$31.1 million (not accounting for future fee revenues or funds recovered from loans in default).

Selected borrowers and lenders, as well as veteran service organizations GAO met with, reported various benefits and challenges to the Patriot Express program, but SBA has yet to evaluate the effect of this pilot program on eligible members of the military community. Borrowers and lenders said that some benefits of the program were that it helped veterans expand their businesses and allowed them to take advantage of the streamlined application process. Some challenges they identified were low awareness of the program and which lenders participated in the program. In 2010, SBA extended the Patriot Express pilot through 2013 to allow time to evaluate the effect of the program. To date, SBA has not evaluated the program or established a plan of what it intends to do to evaluate it. SBA officials told us that they focused their resources on evaluating 7(a) loans because there are many more of them and, therefore, they pose a greater risk to SBA than Patriot Express loans. In addition to Patriot Express, SBA has previously initiated other pilot programs that it has not evaluated. GAO has found that a program evaluation gives an agency the opportunity to refine program design, assess if program operations have resulted in the desired benefits, and, for pilots, determine whether to make the programs permanent. Without conducting evaluations of pilot programs, SBA lacks the information needed to assess their performance and their effects on eligible participants and decide whether to extend these programs, including Patriot Express.

SBA's internal controls over lenders may not provide reasonable assurance that Patriot Express loans are only made to eligible members of the military community and that only these members benefit from loan proceeds. SBA relies on lenders to verify and document borrower eligibility at the time of loan approval. One of SBA's controls over lenders' compliance with eligibility requirements consists of sampling loan files during examinations of the 7(a) program, but few Patriot Express loans are reviewed. Patriot Express is intended to assist only eligible members of the military community and SBA officials told us that they expect borrowers to maintain eligibility after the loan is disbursed. But SBA has not developed procedures for lenders to provide reasonable assurance that borrowers maintain this eligibility. Federal internal control standards and GAO's fraud-prevention framework indicate that ongoing monitoring is an important component of an effective internal control system. Without enhanced internal controls, particularly with respect to monitoring of borrowers, SBA lacks assurance that Patriot Express loans are serving only eligible borrowers.