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Accusations of Agency Error in Disaster Loans

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Last September, the Small Business Administration, which provides most long-term rebuilding aid to disaster victims, accelerated its lending to homeowners and businesses in the Gulf Coast, responding to criticism that it had been slow to respond to Hurricanes Katrina and Rita of 2005.

But now federal investigators are looking into accusations that in speeding up its work, the agency made thousands of loans without following its own rules to avoid fraud. Current and former employees of the agency have told investigators that agency workers failed to secure proper proof that borrowers owned the houses they were supposed to rebuild or had the required insurance.

Caroline Pankove, who worked as a lawyer for the disaster-loan program at the agency from June through December of last year, complained to the agency's managers and its inspector general that employees were improperly pressured to approve loans quickly.

Loan policies were applied inconsistently, Ms. Pankove said, and disaster victims' paperwork was often misplaced or mailed out with errors.

"The rush to disburse loans put everyone at risk: the taxpayer, the agency and especially the borrowers," Ms. Pankove said in an interview. "The people that we needed to serve the most were the ones getting hurt the most."

Her complaints were echoed by Brian Cook, who worked at the agency as a paralegal last year, and by others who spoke on the condition that their names not be used because they were still employed by the agency at the disaster loan office in Fort Worth.

A spokesman for the agency's inspector general confirmed that his office was looking into the accusations but said he could not comment on a continuing investigation.

Agency officials said that they were taking the complaints serious-

ly, but that the problems described by Ms. Pankove and others were isolated, not systemic.

"We never pushed for disbursement to be made without the proper documentation," said Steven C. Preston, who promised to reform the troubled disaster loan program when he was appointed administrator of the agency last summer.

The agency was trying to empower managers to make case-by-case judgments about loan documentation, Mr. Preston said, adding, "We can't have a cookie-cutter approach."

Mr. Preston also disputed the possibility that efforts to speed the pro-

Former employees say speed led to sloppiness after gulf storms.

cess had opened the door to abuse. "Of course we want to get the disbursements out faster," he said, "but it's very dangerous to assume that this would lead to fraud and losses to the taxpayer."

When Mr. Preston took over the agency in July, he inherited a huge backlog of loan applications, which had grown to 94,000 by September, according to the agency. Since then, 51,000 people have received all the loan money they qualified for, 19,000 have gotten some, and 24,000 have canceled their applications.

The agency has made more than \$5 billion in hurricane-related disaster loans, more than half of them since Mr. Preston took over, said Sean Rushton, the assistant administrator for communications.

One way the agency reduced its backlog was by rewarding the employees who got money into the hands of the largest number of borrowers. E-mail messages obtained

by The New York Times promised cash bonuses and overtime to the most productive workers, even though at least one supervisor acknowledged that this emphasis made people uncomfortable.

"I will be honest," a supervisor, Michael V. Cremer, wrote in an e-mail message in October. "Disbursements = cash awards & overtime opportunity. I don't like it, you don't like it . . . but it is what it is." The message continued, "Work with your people to make these numbers look good."

Mr. Cremer did not respond to voice mail messages left at his agency office in Texas.

Leaders of the House and Senate committees overseeing the agency said they were concerned about the accusations of improper lending.

"I'm worried that there may have been too much of a focus on quotas over quality of service for disaster victims," Senator John Kerry, Democrat of Massachusetts and chairman of the Committee on Small Business and Entrepreneurship, said in a statement.

"And if that's true, it's unacceptable," Mr. Kerry said. "If in a rush to get paperwork off their desks the S.B.A. shifted the burden to borrowers who have lost everything to Katrina, that's not a policy, that's an abdication of responsibility."

Despite the agency's new emphasis on speeding the lending process, disaster victims say they continue to experience problems. Donna Colosino, whose family owns a small company in Louisiana that sells power generation equipment, told the House Small Business Committee earlier this month that more than 20 loan officers had dealt with her case. And she said she sent the same documents to the agency more than a dozen times.

"Working with S.B.A. after a disaster is like having a second job," Ms. Colosino said. "I swear to you on my father's grave that this is the story. I am not an anomaly."