

# LENDER OVERSIGHT: 2022

## WHAT YOU NEED TO KNOW (AND DO)

- SBA LENDER OVERSIGHT IN 2022
- SBA'S NEW LENDER ENFORCEMENT POWERS
- OCRM'S EVOLVING MONITORING STRATEGIES

MAY 4, 2022

*Coleman* Webinar Training Series

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# Presented by:

**Brent Ciurlino – Blue Foundry Bank**  
**Executive Vice President, Chief Risk**  
**Officer: Blue Foundry is \$2.0 Billion**  
**Commercial Bank in NJ/NY, with 17**  
**branches, NE States**



Mr. Ciurlino has an extensive and broad-based background in financial regulatory compliance and SBA lending. He currently serves as EVP, Chief Risk Officer at Blue Foundry Bank. He is the past Director of OCRM, Mr. Ciurlino led the development and implementation of the PARRiS protocol and the SBA's risk-based compliance strategies. He has held executive positions with leading SBA lenders, including Patriot Bank, NewTek, ReadyCap and Freedom Mortgage. In addition, Brent has served as a Senior Regulatory Executive for federal regulatory entities such as the Office of Credit Risk Management for the U.S. Small Business Administration, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Federal Credit Council - US Treasury

**Leslie Tripp**  
**Director of SBA Consulting Services**  
**at Garcia & Ortiz, P.A. in St.**  
**Petersburg, FL. & Washington DC**



In addition to being a Tax and Accounting firm, Garcia & Ortiz is a consulting firm specializing in SBA Loan and Program Consulting Services. Previously, Leslie worked as a Deputy Project Manager for the U.S. Small Business Administration (SBA) Office of Credit Risk Management (OCRM) overseeing the SBA Lender 7(a) PARRiS compliance work. Leslie has also been a Senior Examiner for the FDIC. She has worked for Fannie Mae, and as a forensic loan underwriter to ensure compliance with underwriting guidelines. During the earlier years of her career, Leslie owned a successful residential mortgage firm in Maryland.

## Webinar Training Series

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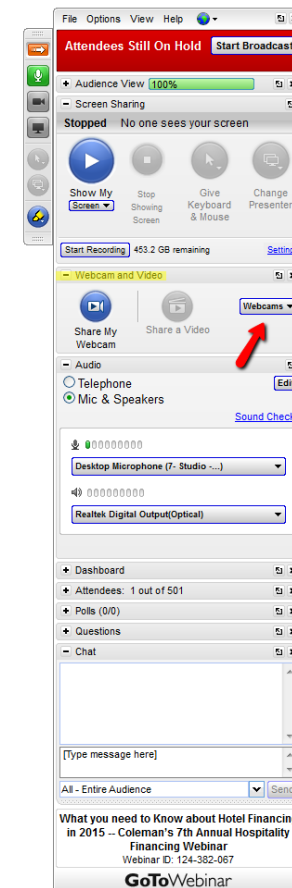
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# Webinar Handouts

Presentation by Brent Ciurlino and Leslie Tripp:

## ***"What You Need To Know " (& Do)***

- Lender oversight in 2022
  - SBA's New Lender Enforcement Powers
  - OCRM's Evolving monitoring STRATEGIES
- 
- Webinar Certificate

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# LENDER OVERSIGHT

WHAT'S COMING IN 2022?

**WHY** 2022 - Increased Compliance Scrutiny

**WHO** is going to be "IN-SCOPE"

**WHAT** you can expect

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**HOW** you should prepare now

## SBA- State of the Union – Recap - SOPs & REGS:

- ▶ **“PENDING” (9/30/2022)**
  - SOP 51-00 LENDER OVERSIGHT/MONITORING
- ▶ January 1, 2021
  - SOP 50-53 SUPERVISION AND ENFORCEMENT
- ▶ October 1, 2020
  - SOP 50 10 6 – Lender & CDC Loan Programs
- ▶ March 15, 2020
  - CARES ACT (PPP)- RIN 3245- AH34
- ▶ June 24, 2019 – Proposed Rule –
  - Implementation of the Small Business
  - 7(a) Lender Oversight Reform Act
- ▶ September 27, 2018 – Proposed Rule -
  - RIN 3245-AG74 – Regulatory Information Notice
- ▶ September 14, 2018 – SBA Info Notice-
  - Control No 5000-18012 – Form 159, Fee Disclosure and Compensation Agreement
- ▶ June 21, 2018 – Congressional Act -
  - Small Business 7(a) Lending Oversight Reform Act
- ▶ December 29, 2014 – Public Reg Notice
  - PARRiS Methodology for Oversight
- ▶ September 28, 2006
  - SOP 51 -00 Lender Oversight/Monitoring



# Road Ahead

- ▶ **Impact of New SOP**
- ▶ **Impact of Supervisory and Enforcement Powers**
- ▶ **Impact of New Regulatory Interests “FDIC/ OCC”**
- ▶ **Post PPP- Covid & Expiration of Subsidy payments**
  
- ▶ **Ahead: Post-Covid economy**
- ▶ **Portfolio Quality Performance**
- ▶ **Self Assessment and Reviews**
- ▶ **Borrower Performance**
- ▶ **Increased Supervision (SBA, FDIC, OCC)**

## THE 7(A) LENDER DATA SEQUENCE:

- National Lender Profile
- Lender Peer Group Activity
  - Loans: Value
  - Loans: Number

# National 7(a) Lender Profile

|                     | Active Banks | Potential New Banks | Active Credit Unions | Potential Credit Unions | Active Comm. Adv. Lenders | Active Non Bank Lenders | Total Active 7(a) Lenders |
|---------------------|--------------|---------------------|----------------------|-------------------------|---------------------------|-------------------------|---------------------------|
| I-New England       | 103          | 120                 | 21                   | 344                     | 4                         | 0                       | 128                       |
| II - Atlantic       | 65           | 160                 | 9                    | 496                     | 6                         | 6                       | 86                        |
| III – Mid Atlantic  | 75           | 280                 | 6                    | 708                     | 2                         | 1                       | 84                        |
| IV- South East      | 148          | 719                 | 7                    | 747                     | 10                        | 2                       | 167                       |
| V – Great Lakes     | 299          | 1,012               | 31                   | 1,097                   | 13                        | 2                       | 167                       |
| VI South Central    | 150          | 737                 | 17                   | 772                     | 3                         | 4                       | 174                       |
| VII Great Plains    | 142          | 805                 | 3                    | 334                     | 2                         | 0                       | 147                       |
| VIII Rocky Mtn’s    | 60           | 277                 | 10                   | 278                     | 4                         | 1                       | 75                        |
| IX – Pacific        | 94           | 111                 | 10                   | 411                     | 12                        | 5                       | 121                       |
| X Pacific Northwest | 32           | 46                  | 6                    | 181                     | 2                         | 1                       | 41                        |
| Total Lenders       | 1,168        | 4,267               | 120                  | 5,368                   | 58                        | 22                      | 1,368                     |

# Value of Loan Activity: FY 2016 vs. 2021

| FY 2016/2021         | Lender Peer Group   | Outstanding Gross Balance | Lender Count |
|----------------------|---------------------|---------------------------|--------------|
|                      | >\$350MM            | \$ 31.8 B                 | 32           |
|                      | \$100MM+ to \$349MM | \$ 13.4 B                 | 78           |
|                      | \$50MM+ to \$99MM   | \$ 6.9 B                  | 98           |
|                      | \$10MM+ to \$49MM   | \$ 10.9 B                 | 497          |
|                      | \$4MM+ to \$9MM     | \$ 3.4 B                  | 526          |
|                      | \$1MM+ to \$3MM     | \$ 1.7 B                  | 783          |
|                      | Less than \$1M      | \$ .3 B                   | 633          |
| <b>FY 2016 Total</b> |                     | <b>\$ 68.5 B</b>          | <b>2,647</b> |
|                      | >\$350MM            | <b>\$ 82.8 B</b>          | <b>82</b>    |
|                      | \$100MM+ to \$349MM | <b>\$ 25.6 B</b>          | <b>134</b>   |
|                      | \$50MM+ to \$99MM   | <b>\$ 9.9 B</b>           | <b>138</b>   |
|                      | \$10MM+ to \$49MM   | \$ 10.6 B                 | 463          |
|                      | \$4MM+ to \$9MM     | \$ 2.5 B                  | 392          |
|                      | \$1MM+ to \$3MM     | \$ 1.3 B                  | 599          |
|                      | Less than \$1M      | \$ .3 B                   | 657          |
| <b>FY 2021 Total</b> |                     | <b>\$ 133.2 B</b>         | <b>2,465</b> |
|                      |                     |                           |              |

# Number of Loans Disbursed

*FY2016 vs. 2021*

| x                     | FY2016              |                           |                        | FY2021              |                           |                        | CHANGE              |                           |                        |
|-----------------------|---------------------|---------------------------|------------------------|---------------------|---------------------------|------------------------|---------------------|---------------------------|------------------------|
|                       | # of Lenders        | Outstanding Gross Balance | Total Approval Dollars | # of Lenders        | Outstanding Gross Balance | Total Approval Dollars | # of Lenders        | Outstanding Gross Balance | Total Approval Dollars |
|                       |                     |                           |                        |                     |                           |                        |                     |                           |                        |
| <b>Active Lenders</b> | <b>2,647</b>        | <b>\$68.5B</b>            | <b>\$19.3B</b>         | <b>2,465</b>        | <b>\$133.2B</b>           | <b>\$29.3B</b>         | <b>-7%</b>          | <b>94%</b>                | <b>52%</b>             |
| <10 Disbursements     | 2,066               | \$12.6B                   | \$2.2B                 | 1,848               | \$2.1B                    | \$2.0B                 | -11%                | 83%                       | -10%                   |
| 10-49 Disbursements   | 469                 | \$16.1B                   | \$5.2B                 | 435                 | \$7.5B                    | \$6.2B                 | -7%                 | 53%                       | 19%                    |
| 50-99 Disbursements   | 56                  | \$7.7B                    | \$2.2B                 | 87                  | \$8.8B                    | \$4.5B                 | 55%                 | 14%                       | 105%                   |
| 100+ Disbursements    | 56                  | \$32.0B                   | \$9.7B                 | 95                  | \$114.7B                  | \$16.5B                | 70%                 | 258%                      | 70%                    |
|                       |                     |                           |                        |                     |                           |                        |                     |                           |                        |
| <b># of Loans*</b>    | <b>Active Loans</b> | <b>Approved Loans</b>     |                        | <b>Active Loans</b> | <b>Approved Loans</b>     |                        | <b>Active Loans</b> | <b>Approved Loans</b>     |                        |
|                       | <b>222,749</b>      | <b>51,991</b>             |                        | <b>268,848</b>      | <b>43,628</b>             |                        | <b>21%</b>          | <b>16%</b>                |                        |



# WHAT'S COMING IN 2022?

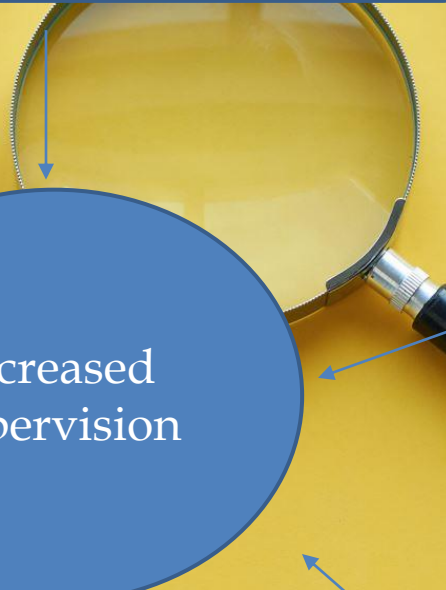
**WHY**...WHO...WHAT...HOW

**WHY** 2022 Will Bring

*Increased Compliance Scrutiny...*

# What's coming?

Public Scrutiny of SBA



INCREASE IN 7(A)  
LENDING VOLUME

- NEW LENDERS  
Expansion

Increased  
Supervision

ECONOMIC UNCERTAINTY

- Sunsetting of PPP/Cares Act
- COVID-SUBSIDY ENDED  
SEPT 2021
- Inflation/Economic Cycle

SBA NEW REGS, POWERS & SOPs

- PUBLIC SCRUTINY OF SBA

Regulatory Orientation (FDIC, OCC,  
NCUA,CFPB(?))

- SBA Loans As Concentration
- SBA Loans As part of CRA
- SBA Loans – Role in CFBP  
future

# Small Business 7(a) Lending Oversight And Reform Act of 2018

- ▶ Statutorily codifies the existence and responsibilities of the Office of Credit Risk Management (OCRM) & Lender Oversight Committee (LOC)
- ▶ *Requires promulgation of a New Rule (Regulation) to define requirements for - Formal and Informal Enforcement Actions For Lenders who do not comply with SBA rules*
- ▶ **Formal Actions**
  - Imposition of portfolio ceiling
  - Suspension from Selling to Secondary Market
  - Suspension or Revocation of Delegated Authority
  - Suspension from SBA Loan Program Participation
  - Civil Monetary Penalties up to \$250,000
  - Debarment
- ▶ **Appeals** - Can now Appeal enforcement actions to District Court or SBA's Office of Hearings & Appeals (OHA)

# Small Business 7(a) Lending Oversight And Reform Act of 2018 – (Continued)

- ▶ Continued – Formal & Informal Enforcement Actions
- ▶ Requires promulgates : Formal and Informal Enforcement Actions  
For Lenders who do not comply with SBA rules
- ▶ **Informal Actions**
  - SBA Supervisory Letter
  - Mandatory Training
  - Board Resolution or Commitment letter
  - Voluntary Actions (e.g., agreement not to sell loans to secondary market)
  - Other Voluntary Agreements (i.e. Withdrawals) between SBA and Lending Partner
  - Others as defined periodically
- **Credit Elsewhere** - - the new Legislation seeks to update and modernize SBA's "foundation test" of eligibility. The new definition of credit elsewhere realigns the test to ensure it is based on a borrower's ability to obtain credit, rather than a lender's ability to offer credit.

# SOP 50-53 SUPERVISION AND ENFORCEMENT:

## KEY ELEMENTS



- ▶ **ENFORCEMENT POWERS**
- ▶ **CORRECTIVE ACTIONS**
- ▶ **PENALTIES**
- ▶ **QUALITY CONTROLS**
- ▶ **PROGRAM DOCUMENTATION**
- ▶ **INDEPENDENT LOAN REVIEWS**



# SOP 51-00 OVERSIGHT/MONITORING

## ▶ WHEN LIKELY TO BE ISSUED

- ▶ Impacted by external factors
- ▶ IG/GAO following closely
- ▶ September 30, 2022
- ▶ WHAT ARE LIKELY TO BE KEY FEATURES
- ▶ Utilization of LLMS Risk Management Portal (Metrics)
- ▶ Further refinement of PARRiS Review Protocol (standards, guidance, methods)



## ▶ IMPACT

- ▶ Increased reliance on self-assessment
- ▶ Internal Auditing
- ▶ Independent Loan Reviewing

# OCRM

## (OVERSIGHT, MONITORING, ENFORCEMENT)

MISSION

OVERSIGHT TOOLS

DIRECTION

- Regulatory changes
- External pressures

# OCRM: MISSION

*“The Mission of the Office of Credit Risk Management is to Ensure the integrity and maximize the effectiveness of SBA’s lending programs by managing”:*

- ❑ Portfolio Risk
- ❑ Monitoring Lender Performance
- ❑ Enforcing Lending Program Requirements

# OCRM Regulatory Framework:

## SBA Policy Notice 5000-1332 (Effective 12.29.2014)

### ▶ **PARRiS Risk Measurement Methodology**

- ▶ Portfolio Performance
- ▶ Asset Management
- ▶ Regulatory Compliance
- ▶ Risk Management
- ▶ Special Items

\*Scores range from 15 to 75

### ▶ **Benchmark Categories**

- 1-Preferred
- 3-Acceptable
- 5-Less Than Acceptable

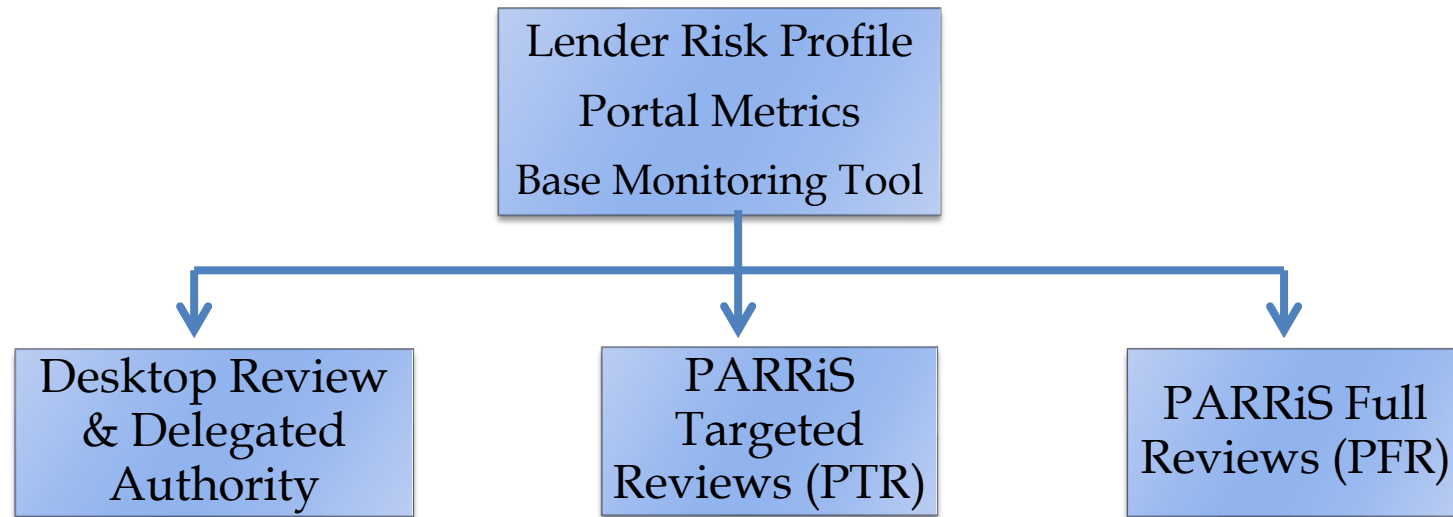
### ▶ **Review Assessments** (Remain the Same)

- Acceptable
- Acceptable with Corrective Actions
- Marginally Acceptable
- Less than Acceptable

### ▶ **Types of Reviews**

- ▶ **PARRiS Desktop Review (PDR)** –Data driven. Virtual..
- ▶ **PARRiS Targeted Review (PTR)** - Narrow scope. Focused on area of concern. Virtual or at lender's site.
- ▶ **PARRiS Full Review (PFR)** – Comprehensive analysis of PARRiS components. Conducted at lender's site.
- ▶ **Delegated Authority Renewal Review** – Performed prior to expiration of delegated status-incorporates Desktop Review.

# PARRiS RBRs: *Review Process*



- PARRiS Score – Less than 30 = Lower Risk
- PARRiS Score – 30 to 43 Range = Moderate Risk
- PARRiS Score – 44 and Greater – Higher Risk
- Desktop Review Report/Delegated Authority
- Utilize 1 and 2 Year Renewals as part of Oversight/Monitoring



# WHAT'S COMING IN 2022?

WHY... **WHO**... WHAT... HOW

**WHO** is going to be “IN-SCOPE”

# Risk Assessment Factors

- ▶ PARRiS Score
- ▶ Time Since last RBR
- ▶ Prior RBR Assessment
- ▶ Delegated Authority
- ▶ Never Reviewed
- ▶ Portfolio Growth
- ▶ Loan Agents
- ▶ Public Documents
- ▶ Lender Service Provider
- ▶ LPA Benchmarks

# 7(a) Risk Filter Flags

| Rank | Risk Filter Overlay   | Selection Focus   |
|------|---|---|
| 1    | Higher PARRiS   | PARRiS Scores > 43 AND Portfolios over \$4MM AND 5 Year Net Yield   |
| 2    | LPR of 4 or 5 & Portfolio >\$4MM  | LPR 4 and 5 AND Portfolios over \$4MM AND 5 Year Net Yield  |
| 3    | Large Lenders without a Risk Based Review in the last two Fiscal Years    | Last RBR AND Portfolio size   |
| 4    | Large Lenders with Marginally or Less than Acceptable RBR Results in FY12 | Last RBR assessment AND Portfolio size  |
| 5    | SBA Lending Concentration 49.4%   | SBA concentration > 49.4%   |
| 6    | Five Year Net Cash Flow Negative  | Recoveries, Purchases, and Fees   |
| 7    | Two Year Growth >50%  | Gross Balance Growth over the past 2 years  |
| 8    | Two Year Growth >20%  |   |
| 9    | Deteriorating PARRiS Score  | PARRiS Score increase by 8 – 22 points  |
| 10   | More than 50 Loans in Active Default more than Three Years                | # of Loans in active default status for more than 3 years > 50  |
| 11   | Significant Secondary Market Participants                                 | A portfolio that is > 50% in the secondary market   |
| 12   | More than Four Risk Groups Present  | More than 4 risk groups   |
| 13   | SBA Experience Less than Three Years                                      | # of years lending in the 7(a) program < 3 AND PARRiS Scores AND Portfolio Growth AND SBPS AND Delegated Authority Status |

\*Risk overlays ranked in order of priority.

# WHAT'S COMING IN 2022?

WHY...WHO... *WHAT*...HOW

*WHAT* You Can Expect...

# OCRM 2022 MONITORING STRATEGIES

- “CATCH-UP” FROM 2021/PPP
- HEAVY RELIANCE ON DESKTOP, & DELEGATED AUTHORITY TARGET REVIEWS
- LENDER PORTAL-L/LMS & DATA-PACK
- NEW OCRM AUDIT CONTRACTOR
- OCRM RELIANCE ON CONTRACT REVIEWERS
- SELF-ASSESSMENT & INTERNAL REVIEWS

# WHAT'S COMING IN 2022?

WHY...WHO... *WHAT...How*

## *HOW* You Should Prepare Now...

### ❑ Risk Management - SBA Self Assessment Tools

- ❖ Lender Portal - L/LMS PARRiS Risk Metrics
- ❖ Data Pack Analysis
- ❖ Internal QC Process/ Post Closing Reviews
- ❖ Independent Loan Reviews

# Self-Assessment: “Lender Know Thyself”



## Lender Portal Monitoring



## Loan Review Protocols:

Internal Loan Reviews

Independent Loan Reviews

Post-Closing File Review

Pre-Closing-Quality Control Protocol

Guaranty Purchase Package Management



## Quality Control Structure

Risk Management (IRLs)

Internal Audit



## Training

Specialty SBA Department Protocols



# PARRiS Lender Portal Scorecard

## Scorecard

### U.S. Small Business Administration Office of Credit Risk Management

Lender Profile Assessment

Day Report Generated: Tuesday, April 28, 2015

SBA Data as of Q1 FY 2015; SNL Data as of Q4 FY 2014

Source Data Updated Quarterly

| PARRiS Components   | PARRiS Factors   | Preferred<br>( + 1 Point)              | Acceptable<br>( + 3 Points) | Less than Acceptable<br>( + 5 Points)                   | Lender Rates | Number of<br>Points |
|---|--|--|-----------------------------|---|--------------|---------------------|
| Performance   | 5 Year Cumulative Net Yield  | > 2 %                                  | -3% - 2%                    | < -3%   | 0.4%         | 3                   |
|   | 12 Month Default Rate  | 0%                                     | > 0% - 6%                   | > 6%  | 1.9%         | 3                   |
|   | 5 Year Default Rate  | 0%                                     | > 0% - 5%                   | > 5%  | 2.6%         | 3                   |
| Asset Management  | Stressed Rate  | 0%                                     | > 0% - 5%                   | > 5%  | 0.9%         | 3                   |
|   | Early Problem Loan Rate  | 0%                                     | > 0% - 2%                   | > 2%  | 1.0%         | 3                   |
|   | High Risk Origination Rate   | < 7%                                   | 7% - 18%                    | > 18%   | 10.9%        | 3                   |
| Regulatory Compliance   | 1502 Reporting Rate  | 100%                                   | 97% - < 100%                | < 97%   | 93.0%        | 5                   |
|   | Loans in Active Default Status over 3 Years Rate                                     | < 19%                                  | 19% - 63%                   | > 63%   | 64.5%        | 5                   |
|   | 24 Month Repair/Denial Rate  | 0%                                     | > 0% - 4%                   | > 4%  | 3.8%         | 3                   |
| Risk Management   | FDIC Total Risk-Based Rate (*)   | = or > 10%                             | 8% - <10%                   | < 8%  | 11.6%        | 1                   |
|   | Non-Performing Asset Ratio   | < 100%                                 |                             | >=100%  | 15.6%        | 1                   |
|   | Lender Purchase Rating (LPR)   | 1,2                                    | 3                           | 4,5   | 2            | 1                   |
| Special Items   | Average SBPS (weighted)  | > 203                                  | 181 - 203                   | < 181   | 186          | 3                   |
|   | Recovery Rate (Over last 5 years)  | > 63%                                  | 21% - 63%                   | < 21%   | 41.1%        | 3                   |
|   | Has Prudential Regulator (Preferred) and<br>No Corrective Action Request (Preferred) | Has Prud Regulator and No Corr. Action |                             | No Prudential Regulator<br>and/or Has Corrective Action | Preferred    | 1                   |
| (*) <a href="http://www.fdic.gov/regulations/safety/manual/section2-1.html#capital">http://www.fdic.gov/regulations/safety/manual/section2-1.html#capital</a> |  |  |                             |   | Total Points | 41                  |

(\*) <http://www.fdic.gov/regulations/safety/manual/section2-1.html#capital>

| PARRiS RISK FLAGS                                    | No Flag | Flag   | Lender Flags       | # of Flags |
|--|---------|--------|--------------------|------------|
| Early Default Rate                                   | < 1%    | >= 1%  | 0.2%               | 0          |
| # of Loans > \$2 Million (Over Last 12 Months)       | <=5     | > 5    | 11                 | 1          |
| Industry Concentration Rate                          | <= 20%  | > 20%  | 15.3%              | 0          |
| Franchise Rate                                       | <=10%   | > 10%  | 5.3%               | 0          |
| Sold on Secondary Market Rate                        | <=75%   | >75%   | 74.3%              | 0          |
| % Growth Rate, Non-Acquired (2 Years), growth > \$4M | < 25%   | >= 25% | 43.8%              | 1          |
| Loan Agent Rate (Over Last 3 Years)                  | 0       | > 0    | 5                  | 1          |
| Acquired Loans Rate                                  | <=25%   | > 25%  | 28.4%              | 1          |
|  |         |        | <b>Total Flags</b> | <b>4</b>   |

# Data Pack - Example

The Data Pack is an Excel file that provides loan level detail to support the PARRiS Risk Factors, SBA Portfolio Balance Sheet, and all Franchise Loans (three separate tabs). In addition to these 3 tabs, there is a 4<sup>th</sup> tab that illustrates all of the PARRiS Risk Factors, and the numerator and denominator values for each factor.

Below are details of data found within the three loan level detail tabs

- Loan Number and Status (current, delinquent, liquidation etc.)
- Current and Originating Bank
- Delivery Method (ie loan program)
- Gross Balance detail across Loan Statuses
- Pertinent Dates (approval, disbursement, purchase etc.)
- Secondary Market Indicator
- Revolving Loan Status
- Borrower info
- NAICS Code info
- Franchise details
- Numerator and Denominator variables to support PARRiS Risk Factors

There are plans to further build out loan level detail within the Data Pack to support the Flags and 172 Payments.

# Lender Risk Framework

The PARRIS Scorecard, including the 15 benchmarked rates and the 8 non-scored flags can be found on the **Overview** page of the Lender Portal for their respective lenders. All metrics and their corresponding score or flag are provided historically for 8 quarters. Peer groups averages are also provided for additional context.

SBA Lender Information Portal

dummy bank  
yyyy city, xx

PARRIS

LRR/LPR

41

4

Overview

Performance13

Asset Management7

Regulatory Compliance7

Risk Management7

Special Items7

<Current Quarter>

View Settings

Export To Excel

Export Loan Data To Excel

Definitions File

Benchmarks File

Notice File

Hello frank.beamer

Log off

Print

7(a) OVERVIEWas of 09/30/2017

PARRIS BENCHMARKS

|   | Lender Results | Lender Benchmark | Score | Peer Group |
|---|----------------|------------------|-------|------------|
| Portfolio Performance   |                |                  |       |            |
| 5-Year Cumulative Net Yield                                       | -0.70%         | Moderate Risk    | 3     | -0.40%     |
| 12-Month Default Rate   | 21.30%         | Higher Risk      | 5     | 2.00%      |
| 5-Year Default Rate   | 4.30%          | Higher Risk      | 5     | 2.50%      |
| Asset Management  |                |                  |       |            |
| High Risk Origination Rate  | 1.50%          | Lower Risk       | 1     | 13.80%     |
| Early Problem Loan Rate   | 1.50%          | Moderate Risk    | 3     | 4.90%      |
| Stressed Loan Rate  | 2.00%          | Moderate Risk    | 3     | 3.50%      |
| Regulatory Compliance   |                |                  |       |            |
| Loans in Default Status over 3 Year Rate                          | 0.00%          | Lower Risk       | 1     | 55.00%     |
| 1502 Reporting Rate   | 88.90%         | Higher Risk      | 5     | 95.10%     |
| 24 Month Repair / Denial Rate                                     | 2.00%          | Lower Risk       | 1     | 3.90%      |
| Risk Management   |                |                  |       |            |
| Forecasted Purchase Rate  | 7.05%          | Higher Risk      | 5     | 1.85%      |
| Total Risk-based Capital Rate                                     | 11.90%         | Lower Risk       | 1     | 15.17%     |
| Non-performing Asset Ratio  | 16.50%         | Lower Risk       | 1     | 12.08%     |
| Special Items   |                |                  |       |            |
| Average Portfolio SBPS Score                                      | 190            | Moderate Risk    | 3     | 184        |
| 5-Year Charge Off Rate  | 9.20%          | Moderate Risk    | 3     | 10.20%     |
| Public Corrective Action with Regulator / No Prudential Regulator | -              | Lower Risk       | 1     | 5          |

PARRIS FLAGS

SITE INFORMATION

| LOANS OUTSTANDING                     | GROSS OUTSTANDING | SBA SHARE \$ OUTSTANDING |
|---------------------------------------|-------------------|--------------------------|
| 27                                    | \$3,387,981.00    | \$2,377,992.00           |
| LENDER PEER GROUP \$001.0MM-\$003.9MM |                   |                          |

FORCASTED PURCHASE RATE (FPR)

| LENDER | PEER GROUP | SBA PORTFOLIO |
|--------|------------|---------------|
| 7.05%  | 1.85%      | 1.20%         |

FPR RATING FACTORS

|  | Lender Results |
|--|----------------|
| SBA Stats                                      |                |
| Percent Revolver                               | 1.50%          |
| Avg MOB  | 44             |
| Avg Loan Term                                  | 150            |
| Business Bureau Stats                          |                |
| Avg SBPS Score                                 | 188            |
| Avg Pct of Accounts More than 30 Days Past Due | 2.11%          |
| Avg Pct of Accounts One or More Days Past Due  | 18.97%         |
| Avg Pct of Current Accounts                    | 70.19%         |
| Avg Pct of Trade Accounts                      | 18.37%         |
| Economic Statistic                             |                |
| Avg State-level Unemployment                   | 2.90%          |

# Vintage Analysis

- In addition to PARRISmetrics, the lender portal also provides a vintage analysis
- The vintage analysis compares the active and performance of the lender's portfolio by disbursement fiscal year
- This vintage analysis can be found on the **Asset Management** pages for the 7(a) portal

|                 |             |                               |       |  |   |   |
|-----------------|-------------|-------------------------------|-------|--|---|---|
| Early Problem   | \$49,982.00 | 1.95%                         | 2.07% | AVERAGE TIME OF LOANS CURRENTLY IN LIQUIDATION<br>8.3 Months | AVERAGE TIME OF LOANS CURRENTLY IN ACTIVE PURCHASE<br>- | AVERAGE TIME OF LOANS CURRENTLY IN ACTIVE DEFAULT<br>8.3 Months |
| Early Default   | -           | -                             | 0.27% |  |   |   |
| <b>Stressed</b> | \$49,982.00 | <b>2.00%</b><br>Moderate Risk | 3.50% |  |   |   |

## VINTAGE ANALYSIS (BY FISCAL YEAR OF DISBURSMENT)

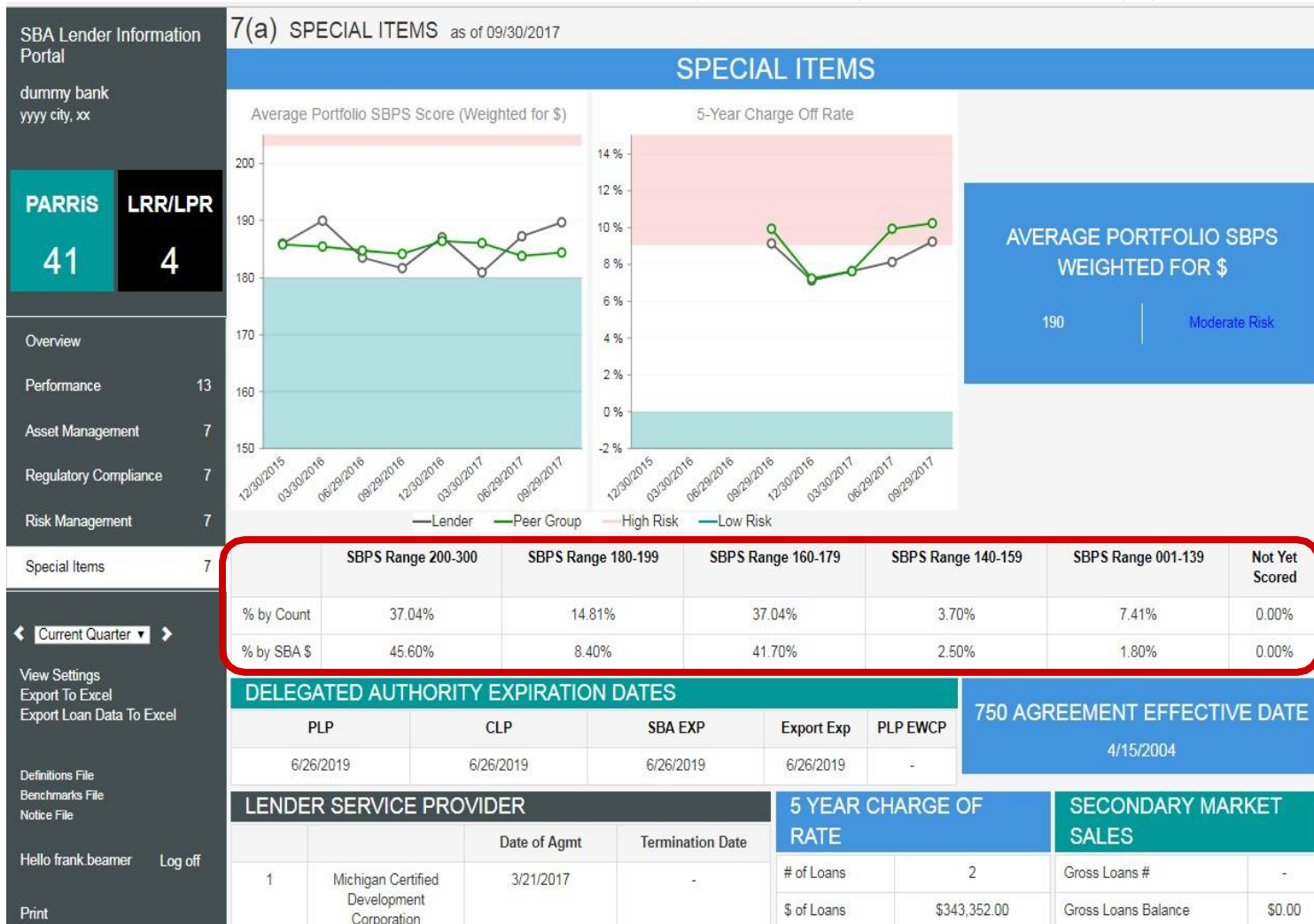
| Disbursement Fiscal Year | # of Disbursed Loans | Approval \$ of Disbursed Loans | Gross Purchase Amt (for loans disbursed in given FY) | Lender Cumulative Purchase Rate | 7(a) Cumulative Purchase Rate (All Lenders) |
|--------------------------|----------------------|--------------------------------|--|---------------------------------|---|
| 2005                     | -                    | -                              | -  | -                               | 16.50%                                      |
| 2006                     | -                    | -                              | -  | -                               | 24.30%                                      |
| 2007                     | 4                    | \$195,000.00                   | \$108,178.00   | 55.50%                          | 29.40%                                      |
| 2008                     | 8                    | \$1,197,500.00                 | \$470,828.00   | 39.30%                          | 25.00%                                      |
| 2009                     | 1                    | \$150,000.00                   | \$77,378.00  | 51.60%                          | 12.50%                                      |
| 2010                     | 4                    | \$1,086,100.00                 | \$0.00   | 0.00%                           | 6.50%                                       |
| 2011                     | 4                    | \$1,225,000.00                 | \$0.00   | 0.00%                           | 4.30%                                       |
| 2012                     | 5                    | \$1,000,000.00                 | \$0.00   | 0.00%                           | 3.90%                                       |
| 2013                     | 9                    | \$2,728,000.00                 | \$0.00   | 0.00%                           | 2.70%                                       |
| 2014                     | 4                    | \$472,500.00                   | \$0.00   | 0.00%                           | 2.10%                                       |
| 2015                     | -                    | -                              | -  | -                               | 1.20%                                       |
| 2016                     | 5                    | \$815,300.00                   | \$0.00   | 0.00%                           | 0.40%                                       |
| 2017                     | 3                    | \$921,800.00                   | \$0.00   | 0.00%                           | 0.00%                                       |

## TRENDS AND BEHAVIOR CONSIDERATIONS(DISBURSED LOANS)

|  | 2014         | 2015 | 2016         | 2017         |
|--|--------------|------|--------------|--------------|
| Avg Loan Size at Approval                          | \$118,125.00 | -    | \$163,060.00 | \$307,266.67 |
| Wtd Avg SBPS Current Score for all Disbursed Loans | 169          | -    | 173          | 214          |
| Conventional 7(a)                                  | 0.00%        | -    | 50.90%       | 0.00%        |
| Delegated  | 100.00%      | -    | 49.10%       | 100.00%      |
| Loans Over \$2 Million(based on approval\$)        | -            | -    | -            | -            |

# Small Business Risk Portfolio Solution (SBRPS) Score – 7(a)

For 7(a) Lenders:  
The SBRPS, commonly known as SBPS by the Small Business Administration community, counts by score range can be found on the **Special Items** page. The percentages are based off of number and dollars of loans in each SBPS category. Furthermore, SBPS ranges can be found on the loan level report for each loan for the past year and make for a great portfolio management score.



# INDEPENDENT LOAN REVIEWS

- **How SBA Will Use**
  - **Scope**
  - **Benefits/Challenges**
  - **Tools**
-

# HOW SBA USES LOAN REVIEWS

- The “heart” of SBA Compliance Audits (PTR/PFR)
- SBA moving toward increasing reliance on self-initiated or “Independent Loan Reviews”
- Guidance Issued to SBLC’s which will likely be adopted for 7(a)



## CURRENT SBA GUIDANCE: INDEPENDENT LOAN REVIEWS (IRL):

- SOP 50-10-(6)
- Independent Loan Review Guide (Oct. 2017)
- Internal Controls Guide (2016)

## CURRENT SBA GUIDANCE: INDEPENDENT LOAN REVIEW GUIDE: HIGHLIGHTS

- Requirement that ILR guidelines be documented in Lender's Internal Control Policy
- Frequency: Annual
- Qualifications of Reviewers
- Definition of Independence (internal or external)
- Scope of Review (12 defined areas)

## CURRENT SBA GUIDANCE: INDEPENDENT LOAN REVIEW GUIDE: HIGHLIGHTS (CONT.)

- Objectives of ILRs (7 specific requirements)
- Core Analysis Requirements
- Risk-Rating Requirements/Loan Quality Classification Standards
- Contractor Oversight
- Training Standards
- Board of Directors Oversight



## Independent Loan Review:

- *Lessons from the Field*

Leslie Tripp  
Director of SBA Consulting Services

# The Garcia & Ortiz Experience

- **SBA - Initiated Reviews: 2017-Present**
- **SBA PARRiS Contractor 2014-2020**
  - **Helped shape SBA focus, methodologies, scope**
  - **15,000 Loan Reviews (SBA/Lender-directed)**
  - **Standard methodology**
  - **Exception reporting standards**
- **Industry standard compliance software (GOLoan)**
- **SBA, FDIC, OCC, NCUA experience**

# *ON THE FRONT LINES*

## WHAT ARE WE SEEING?

### **New Requirements of SOP 50 10 6**

- New Disclosure, prior to services provided, that the Applicant is not required to obtain or pay for packaging or referring a loan application.
- New requirement, that if the loan involves the purchase or renovation of a property or site, SBA Lender must conduct due diligence to determine whether the property is listed on the NRHP.
- New requirement regarding IRS Tax Transcripts buyer and seller's consent to use.



# *ON THE FRONT LINES*

## WHAT ARE WE SEEING?

- Forms not being completed properly: Forms 1919 and Form 1920
- Loan Authorization not being prepared correctly: Some errors include missing all the required insurances, missing all items required as collateral
- List of Equipment and Fixtures missing
- Missing All Required Equity Injection Documentation



# *ON THE FRONT LINES*

## WHAT ARE WE SEEING?

- Required Lien positions – loan files not documented with proper perfection of all required lien positions
- Accurate completion of Form 1050
- Not all required SAM Searches in file
- No Site Visit for Change of Ownership
- Does the Department Have a Current Business Plan
- Do they have a QC Process Flow Document
- How do they interact with Internal Audit or Internal Loan Review
- Do they have Third Party Management Policy & Procedures





**HOW DOES AN  
SBA  
INDEPENDENT LOAN REVIEW  
WORK????**



1. Evaluate Data Pack/Portal Evaluation

2. Determine the # of loans in sample:

# of loans can be based upon volume, any issues with the portfolio, rapid growth, your internal loan review program requirements

3. Determine the range of dates closed

4. Lender uploads the loans to secure site

5. Reviewers review the loans

## Loan Review Process



# Loan Review Process, continued

6. G&O uploads an Open Issues (OI) sheet showing the preliminary exceptions on each loan

7. Lender responds to each OI sheet

8. Reviewers review Lender response

9. Final OI

10. Discussion of Outstanding Exceptions

11. Issue Report on the Results



## Automated Loan Review Tool



## Review

Update & Continue →

### Reviewer

Leslie Tripp

### Lender

TESTBANK

### Loan Authorization Approval Date

08/02/2021

### Loan Authorization Approved Amount

\$1,250,000.00

### Loan balance

\$1,150,000.00

### SBA Loan Number

357357357

### Sample #

5

### Reason in Sample

N/A

### Risk Rating

5

### SBA Loan Name

Scooby Dooby Do

### Loan Payment Status

Current

### Processing Method

PIP

## Loan Characteristics

☒ All 7(a) loans (need to always choose this one)

☐ Debt Refinancing

(choose this one if you are also choosing either of the 2 below)

☐ Same Institution Debt (SID) Refinancing

☐ Refinancing an SBA-Guaranteed Loan

☒ Change of Ownership

☐ Start-Up Business

☐ Construction Loan

☐ EPC/OC loan

☐ Franchise

☐ SBA Express

☐ SBLC Loan

☐ 7(a) Small Loans up to and including \$350,000

☐ 7(a) loans greater than \$350,000 and loans of \$350,000 or less that do not meet SBA's minimum credit score requirements for 7(a) Small Loans

**NOTE:** Specific SOP Requirements for Export

Express, CAPLines, and EPC/OC loans are not

Start Page

Forms

Eligibility

Loan Terms & Conditions

CR Stds, Coll, & Env Pol

Loan Authorization

Loan Closing & Disbursements

Servicing 50 57 2

Definitions

Start a New Loan

### REVIEWS

Joes Hair Salon  
8888888

OPEN

Scoobie Do  
8989898

OPEN

Scooby Don't  
3151234589

COMPLETE

LaDiDa Gas Station  
8909890989

OPEN

## Review

## Question # F1

## Required Forms

NA -Expiration Date: 09/30/2023

## Suggested Forms

SOP 50 10 06 - reference text/pages

## Pro Tips

## Questions:

*Meant to be answered with a Yes (or N/A) to be in compliance*

## Criteria

Is the current, up-to-date and not expired, Form 1919 used?

Select One

☐ Yes

☒ No

☐ N/A

## Loan Reviewer's Exception Notes

Expired Form 1919 used.

## REVIEWERS CHECKLIST

Start Page

Forms

F1, F2, F3, F4, F5, F6, F7, F8, F9, F10, F11, F12, F13, F14, F15, F16, F17, F18, F19, F20, F21, F22, F23, F24, F25, F26, F27, F28, F29, F30, F31, F32, F33, F34, F35, F36, F37, F38, F39, F40, F41, F42, F43, F44, F45, F46, F47,

Eligibility

E1, E3, E4, E5, E6, E7, E8, E9, E10, E11, E12, E13, E33, E34, E35, E36, E37, E38, E39, E40, E41, E42, E44,

Loan Terms &amp; Conditions

CR Stds, Coll, &amp; Env Pol

Loan Authorization

Loan Closing &amp; Disbursements

Servicing 50 57 2

## Registering





**Exceptions:7**

## **TESTBANK**

**Review Date: January 26, 2022**

### **File Review Open Items**

TESTBANK: Please respond within 2 business days. Next to each item please either respond with "Acknowledged" if you agree this is an exception or explain the document (and upload it) that will clear the exception.

|                                    |   |                                    |
|------------------------------------|---|------------------------------------|
| <b>Sample #</b><br>1               | <b>Loan Number</b><br>8989898                 | <b>Borrower</b><br>Scoobie Do      |
| <b>Approved Date</b><br>02/15/2021 | <b>Gross Approval Amount</b><br>\$ 250,000.00 | <b>Delivery Method</b><br>PLP      |
| <b>Risk Rating</b><br>5            | <b>Reason in Sample</b><br>test               | <b>Reviewer Name</b><br>Sue Review |

### **DEFICIENCIES NOTED:**

1. **E38:** An EPC must lease 100% of the rentable property to an eligible OC. Does your loan comply? - Part 2, Section A, Chapter 4, Paragraph C, 1, a, When the real estate is owned by an EPC: a) The EPC must lease 100% of the Rentable Property to an eligible OC(s). See page(s) 164.  
EPC only leases 50% of the property to the OC.

### **MANAGEMENT RESPONSE:**

---



| Loan Characteristics               | Definitions   |
|------------------------------------|---|
| Change of Ownership                | A loan is considered a Change of Ownership if it is accomplished through a stock purchase (including a stock redemption) or an asset purchase. An asset purchase is considered a change of ownership if the Applicant(s) is purchasing all of substantially all of the assets of the Seller's business and is continuing the operations of the Seller's business. A change of ownership can occur between existing owners or a change of ownership can result in a new owner. |
| Debt Refinance                     | A loan is considered a Debt Refinance if the loan proceeds are used to pay off other debt (business credit card, other loan, HELOC, etc.).  |
| Refinancing an SBA Guaranteed Loan | A loan is considered Refinancing an SBA Guaranteed Loan when the loan proceeds are used to pay off an existing SBA-guaranteed loan.   |
| Same Institution Debt Refinance    | When a Lender seeks to use SBA-guaranteed loan proceeds to refinance its own debt, it is considered Same Institution Debt Refinance, or SID.  |
| EPC/OC                             | EPC/OC (Eligible Passive Company/Operating Company) is a loan structure where the EPC must use loan proceeds only to acquire or lease, and/or improve or renovate, real or personal property that it  |

Review

### Question # E34

SOP 50 10 06 - reference text/pages

#### Pro Tips

Check the Disbursements to see who received the working capital. Was the check/wire in the OC's name?

← Back

Save & Continue →

### Questions:

*Meant to be answered with a Yes (or N/A) to be in compliance*

### Criteria

Did the OC receive any loan proceeds as working capital and/or for the purchase of other assets (including intangible assets), for the OC's use? If so, the OC must be a co-Borrower on the loan. Did Lender comply?

Select One ☐ Yes  
☐ No  
☒ N/A

Loan Reviewer's Exception Notes

Your content here..

Start Page

Forms

Eligibility

E1, E3, E4, E5, E6, E7, E8, E9, E10,  
E11, E12, E13, E33, E34, E35, E36,  
E37, E38, E39, E40, E41, E42, E44,

Loan Terms & Conditions

CR Stds, Coll, & Env Pol

Loan Authorization

Loan Closing & Disbursements

Servicing 50 57 2

Definitions

Review

### Question # E34

SOP 50 10 06 - reference text/pages

**Part 2, Section A, Chapter 2, Paragraph A, 1, f, vi** pages:  
**136**

The OC must be a guarantor or a co-borrower on the loan. vi. The OC(s) must be a co-Borrower if it receives any proceeds or if proceeds will be used to purchase any assets for the OC(s) use.

Pro Tips

← Back

Save & Continue →

### Questions:

*Meant to be answered with a Yes (or N/A) to be in compliance*

### Criteria

Did the OC receive any loan proceeds as working capital and/or for the purchase of other assets (including intangible assets), for the OC's use? If so, the OC must be a co-Borrower on the loan. Did Lender comply?

### Select One

- ☐ Yes  
☐ No  
☒ N/A

### Loan Reviewer's Exception Notes

Your content here..

### REVIEWERS CHECKLIST

Start Page

Forms

Eligibility

**E1, E3, E4, E5, E6, E7, E8, E9, E10, E11, E12, E13, E33, E34, E35, E36, E37, E38, E39, E40, E41, E42, E44,**

Loan Terms & Conditions

CR Stds, Coll, & Env Pol

Loan Authorization

Loan Closing & Disbursements

Servicing 50 57 2

Definitions

Start a New Loan

# Difficulties with Independent Loan Reviews.

- Time consuming
- Disruptive
- Scarce technical skills
- Hundreds of questions/criteria
- Inconsistent scope or level of detail



# TRAINING

- Are you maintaining a Training Log
  - Do you have an accurate Org Chart with functions
  - Do you have an annual Training Plan
  - SBA Training – FDIC & OCC interest
  - Do you have Procedures that sync with your SBA Policy
  - Do you interact with an LSP – Joint Training?
-

# Closing Overview

- ▶ **SBA Enforcement Powers/ SOP's & What to expect**
- ▶ **Aware that FDIC & OCC are intensifying SBA Loans**
- ▶ **Congressional & IG Oversight will continue**
- ▶ **Know you PARRiS Metrics, Portal and Data Pack**
- ▶ **Know your Risk Flags & Status**
- ▶ **Have a Current Business Plan**
- ▶ **Have a Documented QC Process for Loan Controls**
- ▶ **Consider Strategies for Self Assessment and ILR's**
- ▶ **Invest in Tools, Training and Awareness**

## Questions?? Contact Us!

- ▶ **Brent Ciurlino:**

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- ▶ **Leslie Tripp**

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- ▶ (240)-508-8349

- ▶ **Chuck Evans**

- ▶ [cevans@windsoradvantage.com](mailto:cevans@windsoradvantage.com)
- ▶ (610)-952-9770

# Where can you Meet Us?

## 2022 Conferences

- **MALC** in Houston, TX April 11<sup>th</sup>
- **NAGGL Spring** in Atlanta, GA May 10<sup>th</sup>
- **America East** in MD August 3<sup>rd</sup>
- **FLAGGL** in Orlando, FL September 21<sup>st</sup>
- **NAGGL Annual** in Colorado Springs, CO in October

