

Do You See What I See?

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Show of Hands

1. 7(a) Lenders

- a. Non-Federally Regulated
- b. Community Advantage

2. 504 Lenders

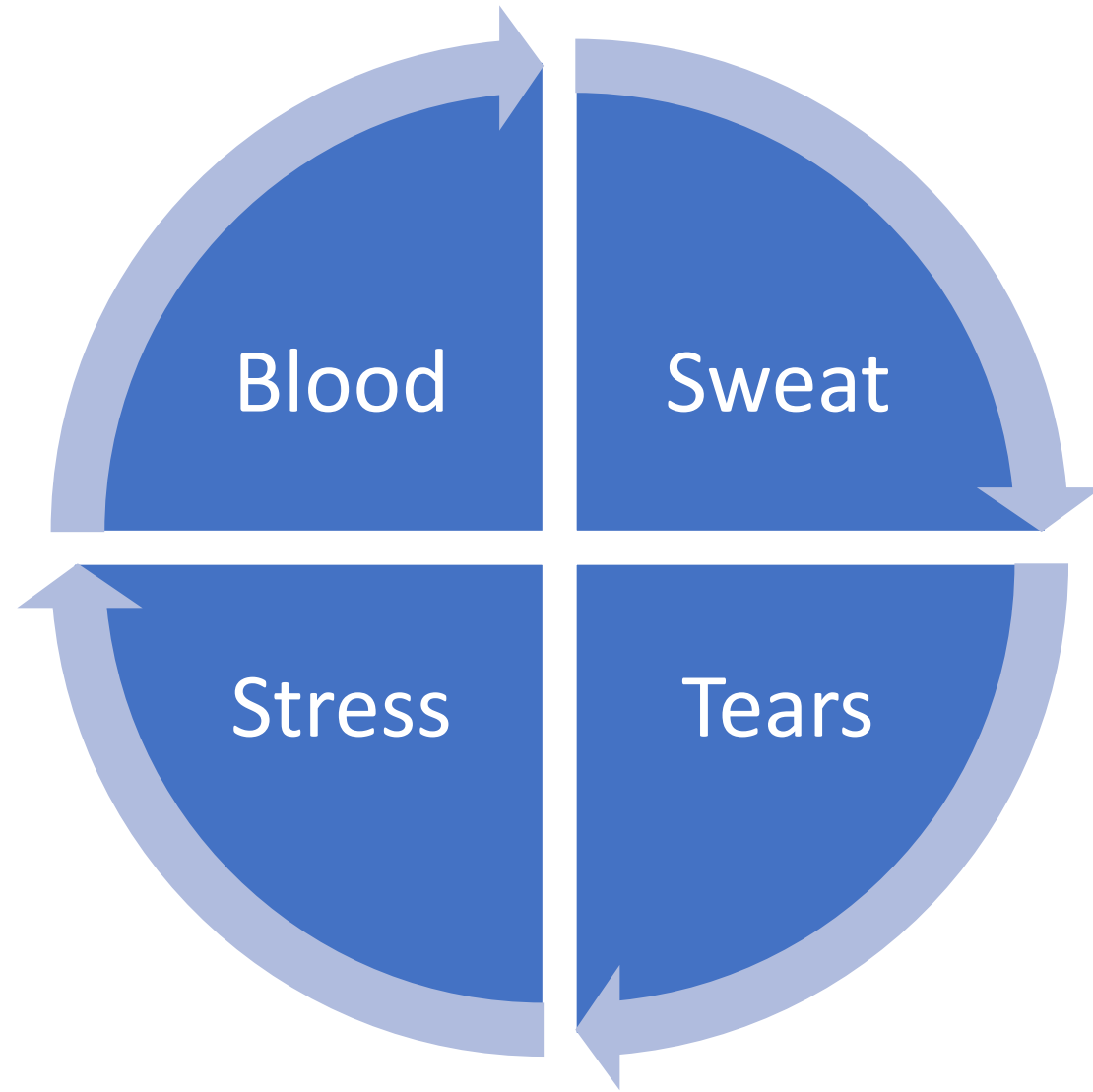
3. Microlender

4. Third Parties (Attorney, Lender Service Provider, Appraiser, Insurance Agent, Etc.)

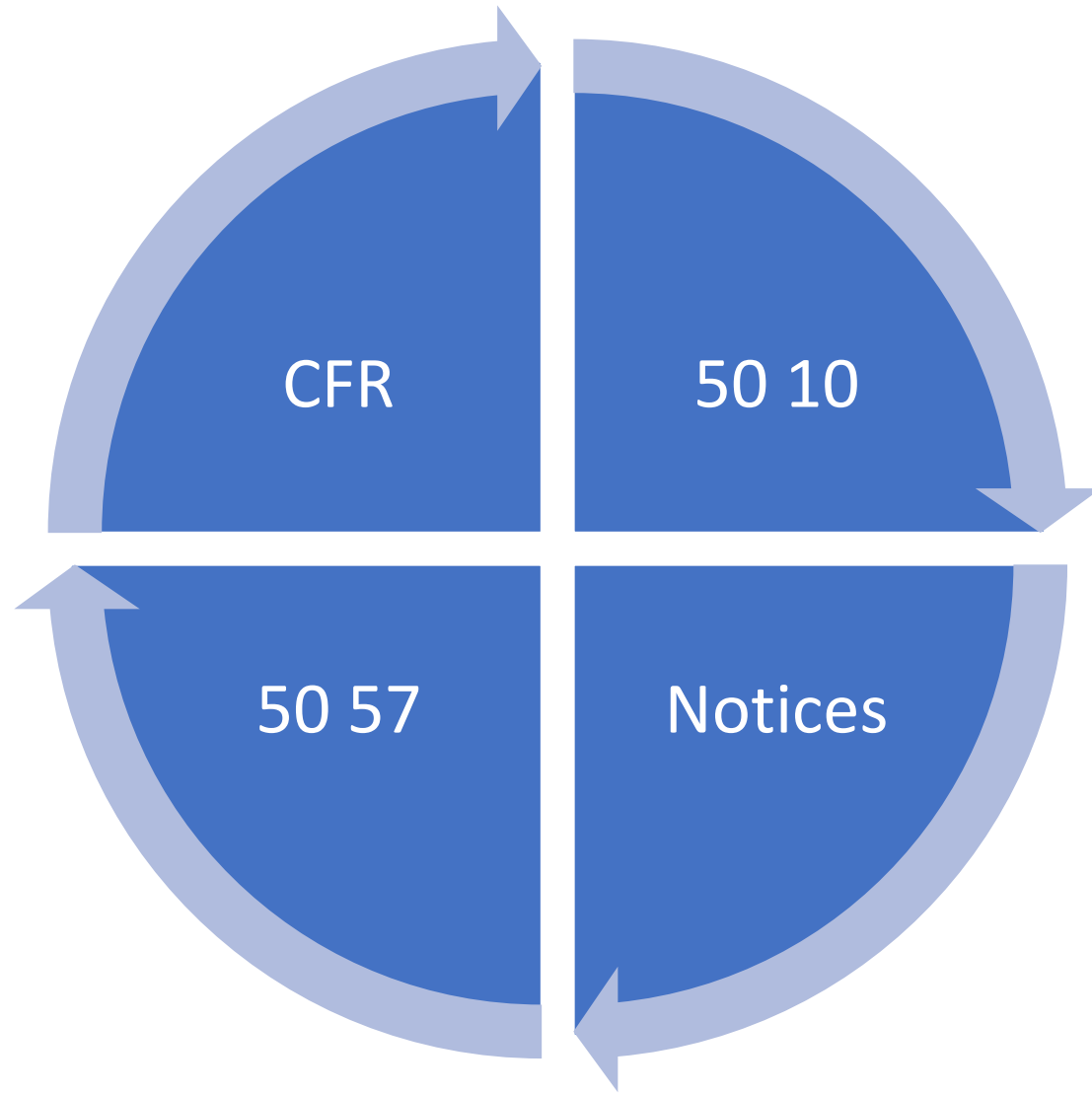
5. Thought the line was for a water slide...

Fun “Facts”

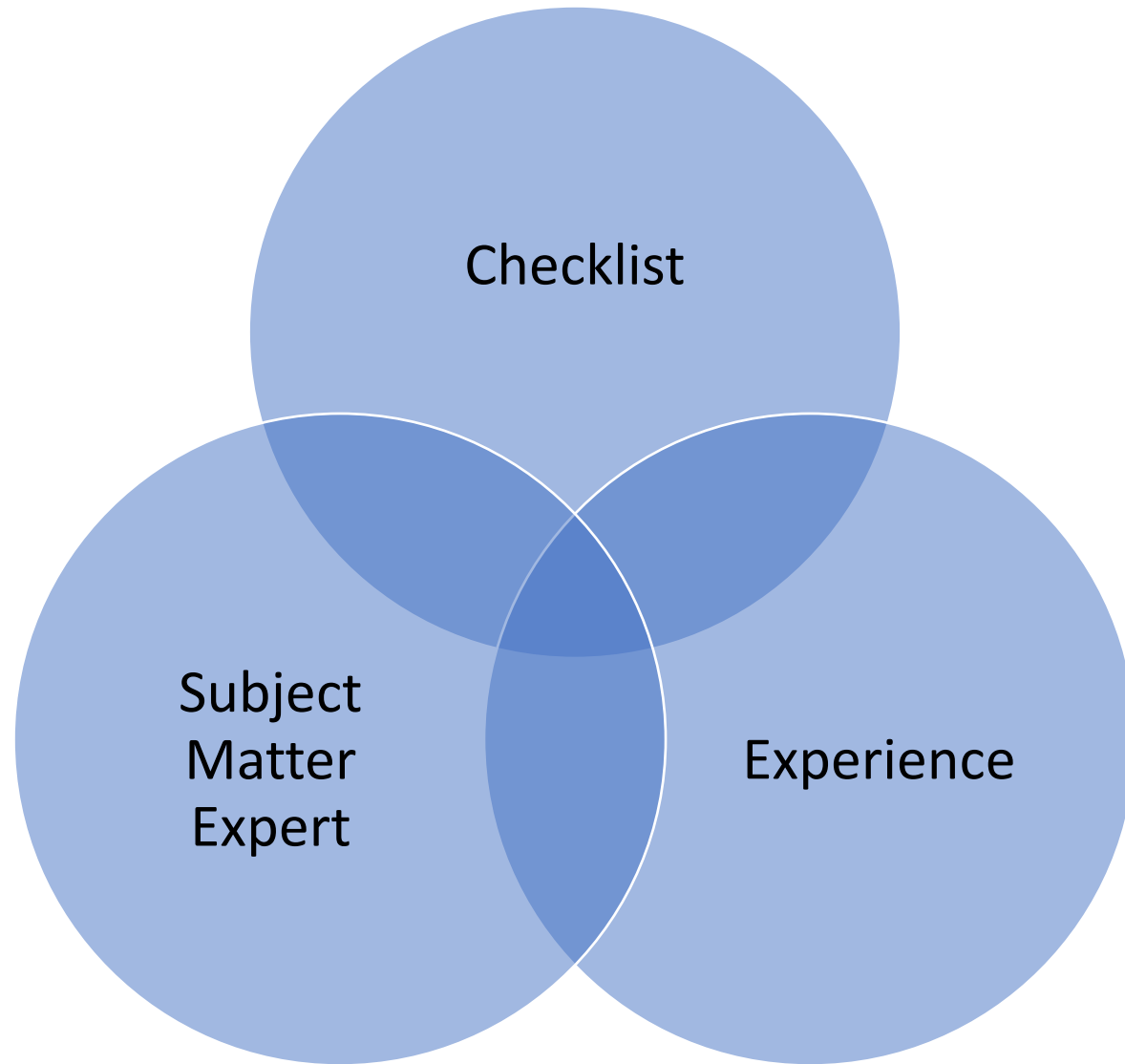
- Nothing begins with “n” and ends with “g”.
- Most things we worry about never happen.
- More choices means a harder decision.
- We are always altering our memories.
- We can only have a limited number of friends.
- If you have a Plan B, Plan A will not happen.



Form 750



Loan Authorization



The General Risk-Based Review Process

1. Strategic Plan (Lender Selection)

2. Vetting

3. Notification

4. Review Activities

5. Close-Out

Do Not Look At Them As Punitive

They Are An Opportunity To Evaluate Your Lending Activities and Learn

I have to...

I get to...

I want to...

Quantitative Versus Qualitative

PARRiS & SMART
Holistic Approach

**Scores come and go.
Eligibility is forever.**

Speaking of Eligibility... Credit Not Available Elsewhere

- Must demonstrate the need for the desired credit
- It is part of the eligibility determination – it never goes away.
- Risk-Based Review Testing Requirement:
 - Determine if the SBA Lender has sufficiently examined, certified, and documented that a Small Business Applicant is not able to obtain credit elsewhere.
 - The credit memorandum must substantiate that credit is not available elsewhere by discussing acceptable factors that demonstrate an identifiable weakness in the credit. Among other things, the Lender must include the specific reasons why the Applicant does not meet the Lender's conventional loan policy requirements.

When Should I Prepare?

Is There a Checklist?

1. Willing to Change

- a. Has the ability to change
- b. Does not have the ability to change

2. No Willingness to Change

Risk-Based Review of the Year

Limited Scope

f/k/a PARRiS Targeted Review

This Is Not Your Typical Business Loan File Review

1. Prior to be notified of a deficiency (missing document, ratio, etc.)
 - a. *You had the document but forgot to upload it/upload missed it.*
 - a. *You did not have the document/information.*
 - i. *If you don't have it, do not believe it was required, AND can support that belief based on SBA Loan Program Requirements (e.g., can provide a direct reference to the applicable SOP), provide an explanation with the applicable references.*

We clear the exception if you had it.

We do not clear the exception if you can get it.

(Policies/Procedures/Daily Practices/Internal Controls)

“I thought”

versus

“I determined”

versus

“I have documentation to support”

New Business Definition (SOP 50 10 Appendix):

- **New Business:** (7(a) and 504) A business that has been in operations for 2 years or less at the time the loan is approved. A business that has been in operation for more than 2 years at the time the loan is approved may be considered a New Business if it is a change of ownership that will result in new, unproven ownership/management and increased debt unrelated to business operations.

Reconciliation

Form 1920
(Is the 1920 important?)

to

Credit Memorandum

to

Loan Authorization

to

Loan Document

THE

Loan Authorization

- When do I have to obtain all the required insurance(s)?
 - Per the Authorization: “Prior to disbursement, Lender must require Borrower to obtain the following insurance coverage and maintain this coverage for the life of Loan:”

Prohibited Fees

SOP 50 10 6, “Any fee not expressly permitted in 13 CFR § 120.221 is prohibited.

§ 120.221 Fees and expenses that the Lender may collect from a loan applicant or Borrower.

Unless otherwise allowed by SBA Loan Program Requirements, the Lender may charge and collect from the applicant or Borrower only the following fees and expenses:

- (a) **Service and packaging fees.** The Lender may charge an applicant reasonable fees (customary for similar Lenders in the geographic area where the loan is being made) for packaging and other services. The Lender must advise the applicant in writing that the applicant is not required to obtain or pay for unwanted services. The applicant is responsible for deciding whether fees are reasonable. SBA may review these fees at any time. Lender must refund any such fee considered unreasonable by SBA.
- (b) **Extraordinary servicing.** Subject to prior written SBA approval, if all or part of a loan will have extraordinary servicing needs, the Lender may charge the applicant a service fee not to exceed 2 percent per year on the outstanding balance of the part requiring special servicing.
- (c) **Out-of-pocket expenses.** The Lender may collect from the applicant necessary out-of-pocket expenses such as filing or recording fees.
- (d) **Late payment fee.** The Lender may charge the Borrower a late payment fee not to exceed 5 percent of the regular loan payment.
- (e) **Legal services.** Lender may charge the Borrower for legal services rendered on an hourly basis.

“Services Actually Performed”

Learn It, Live It, Love It

The Laundry List

- The Mighty SBA Form
- Websites/Marketing
- Self Reporting
 - *Loan Reporting*
 - *SBA Form 172*
- Fiscal Transfer Agent (Guidehouse)
 - *Get on the email distribution list*
- Community Advantage (Pilot Program)
 - *Onboarding Lender*
 - *Oversight*
 - *CA Guide*
- ALTA Loan Policy/Title Loan Policy

The Laundry List (cont.)

- Tax Transcripts
- Construction (overruns)
- Delivering Loans Via Multiple Delivery Methods
 - *Companion loans*
 - *In General*
 - *Options can create confusion.*
- Training
 - *OCRM Testing*
- Ask First
 - *Asking for forgiveness later does not work*

The Laundry List (cont.)

- Business Decision versus OCRM Input
- Don't just "skim" – understand in depth (or find someone who does)
 - *Attend training and build off that...Training is the first of many, many steps*
- Internal controls...
- Too many cooks in the kitchen – things are being overlooked between hand-offs.
- SBA Express
 - *Yes, there are requirements*
 - *The SBA Express Authorization*
- Vendor Management

What We Seeing and Shouldn't Be The Dirty Laundry

- *Neglecting the easy stuff*
 - Credit Elsewhere
 - Forms (Missing or Inaccurate)
 - Site Visits Not Documented (Change of Ownership)
 - Omitting the Required Ratios (What SOP 50 10 Requires – Not an “equivalent”)
 - No Written Lease for Eligible Passive Company/Operating Company

Questions

