



Office of Credit Risk Management
Culture of Risk Awareness 2.0

Hotel Del Coronado, San Diego, CA

May 15 – 18, 2013

Confidential and Proprietary

To manage risk:

You must be in the AWARENESS business.

Assess Activity & Information

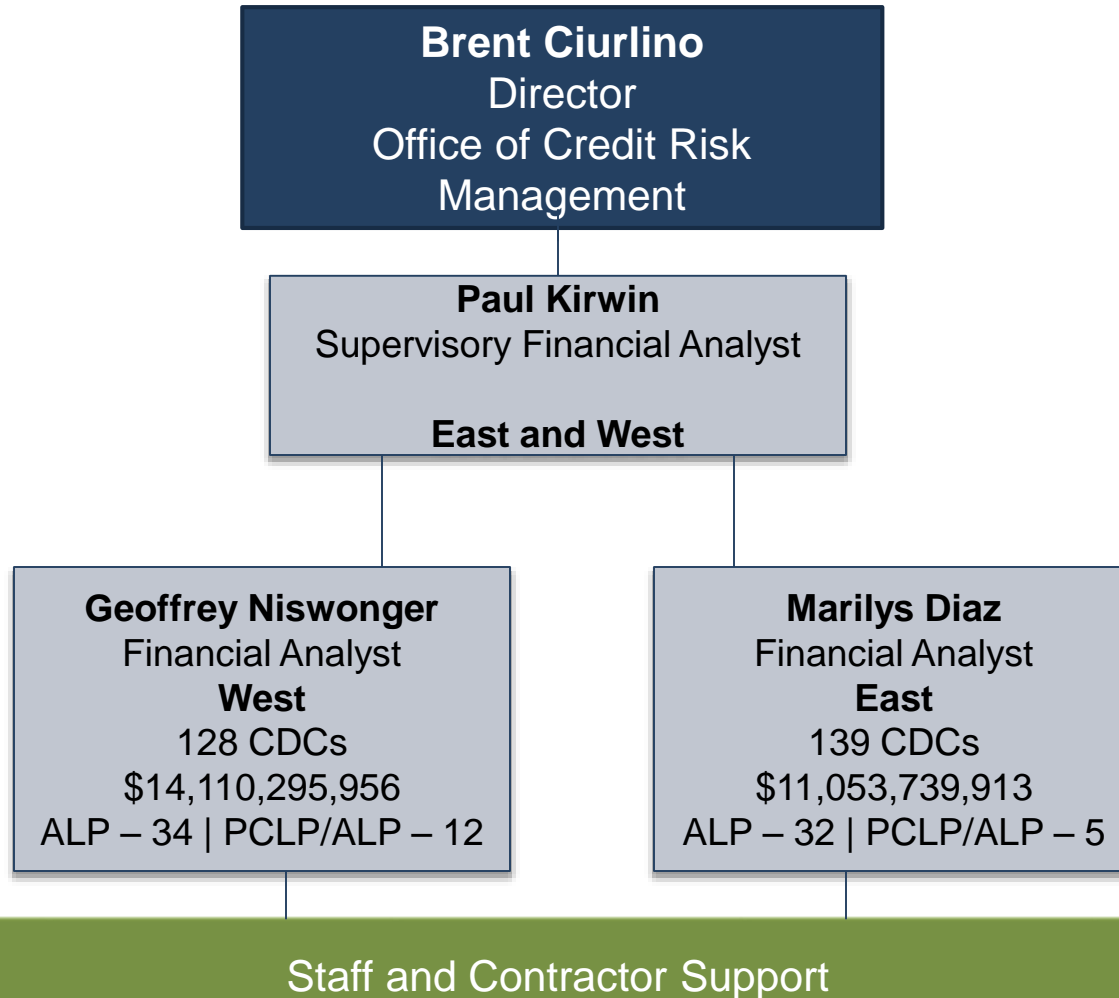
Who? What? Where? When?

Analyze & Articulate

Review & Regulate

Engage & Enforce

OCRM 504 Organizational Chart



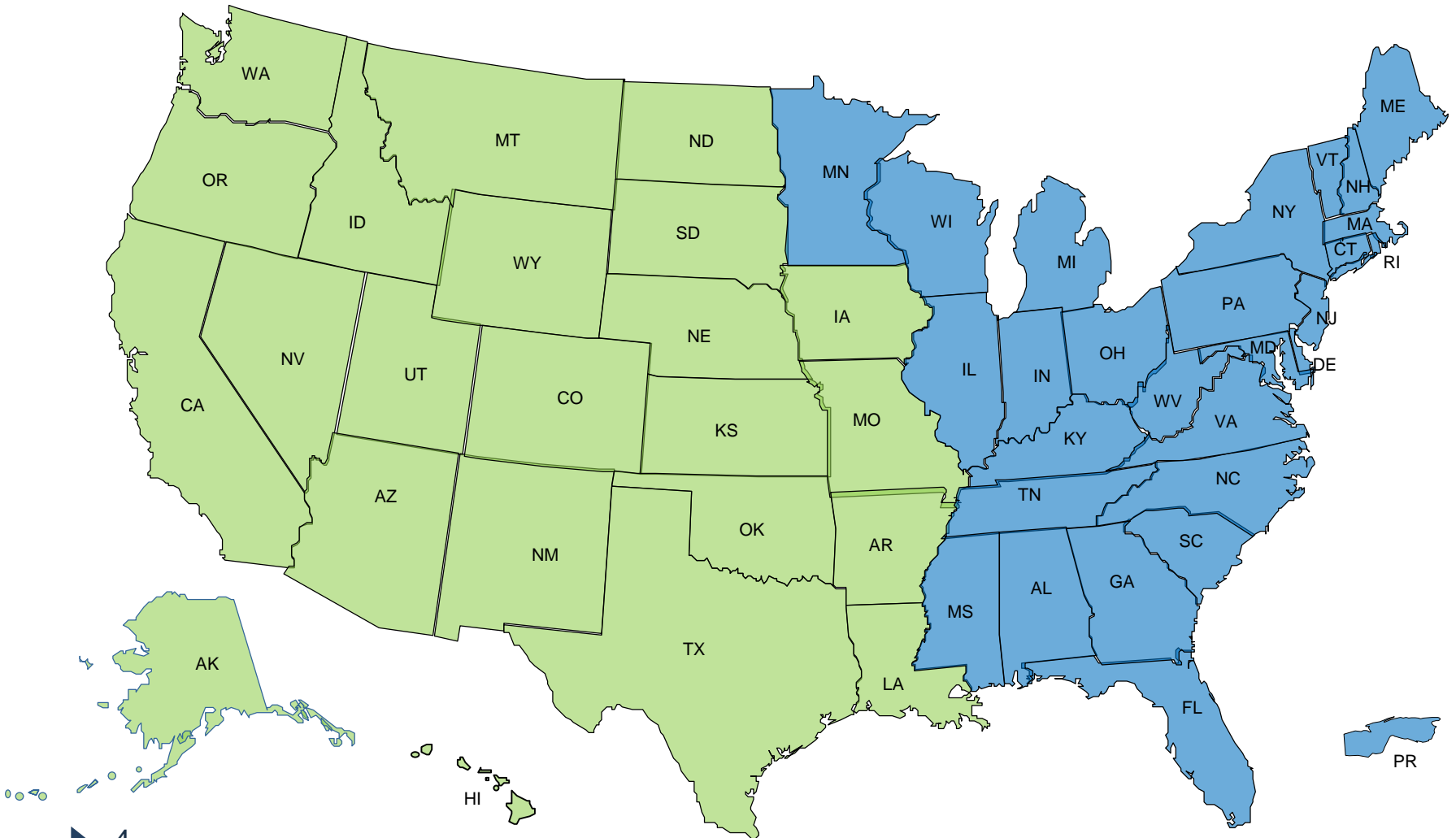
OFFICE OF CREDIT RISK MANAGEMENT
Geographic Assignment East/West

East

•Regions I, II, III, IV, V

West

•Regions VI, VII, VIII, IX, X



504 Portfolio Overview

504 Balance Sheet

Gross Active Balance	\$26,202,550
Active Loans	59,869

Current Balance	\$24,619,838
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Past Due Balance	\$72,839
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Deferred Balance	\$131,261
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Delinquent Balance	\$519,017
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In Catch-up Balance	\$859,338
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Non-Current Balance	\$1,582,711
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Active Purchases	\$2,058,000
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Note: dollars in thousands. As of 2/28/13

504 Regional Portfolios

OCRM Region	# of CDCs	Gross Active Balance	# of Loans
East - Regions I, II, III, IV, V	139	\$11,053,739,913	26,563
West - Regions VI, VII, VIII, IX, X	128	\$14,110,295,956	31,345
Enforcement Actions/SBA Serviced	N/A	\$1,038,514,577	1,961
Total	267	\$26,202,550,448	59,869

Portfolio Risk Overview

504 Portfolio by SBPS Range (as of 2/28/13)

SBPS Range	# of Loans	Gross Active Balance
High Risk (0-159)	5,837	\$2,256,422
Medium Risk (160-199)	25,752	\$11,356,225
Low Risk (200-300)	27,936	\$12,480,982
Total	59,525	\$26,093,630 *

504 Calculated Risk Rating

Risk Rating	# of CDCs	Gross Active Balance **
1	49	\$2,083,878
2	118	\$17,763,736
3	73	\$4,499,875
4	18	\$579,327
5	9	\$206,649

504SBA CDC Risk Rating with Overrides

Risk Rating	# of CDCs	Gross Active Balance **
1	48	\$2,081,368
2	118	\$17,763,736
3	73	\$44,99,875
4	18	\$579,327
5	10	\$209,159

504 SBA Developmental Risk Rating 2012/2013

Risk Rating	# of CDCs	Gross Active Balance **
1	34	\$678,190
2	57	\$8,345,583
3	109	\$13,710,829
4	41	\$1,945,438
5	26	\$453,426

Note: Risk Ratings do not include Enforcement Action Group *Balance does not include unscored loans **Dollars in Thousands

CDC Qualified Stratification

CDC Delegation	Old Risk Rating			New Risk Rating		
	# of CDCs	# of Loans	Gross Active Balance	# of CDCs	# of Loans	Gross Active Balance
PCLP/ALP (Risk Rating 1-3)	17	14,638	\$7,246,644,125	16	14,514	\$7,180,568,646
PCLP/ALP (Risk Rating 4-5)	0	0	\$0	1	124	\$66,075,478
Non-PCLP CDCs with Active PCLP Loans (Risk Rating 1-3)	14	11,007	\$4,262,243,655	14	11,007	\$4,262,243,655
ALP Only (Risk Rating 1-3)	55	15,843	\$6,577,357,941	48	14,382	\$6,052,905,958
ALP Only (Risk Rating 4-5)	0	0	\$0	7	1,461	\$524,451,983
Non-Delegated (Risk Rating 1-3)	134	13,696	\$5,805,563,688	106	11,457	\$4,973,320,135
Non-Delegated (Risk Rating 4-5)	23	1,740	\$925,381,559	51	3,979	\$1,757,625,112
Inactive/Compliance Issues*	21	483	\$159,027,833	21	483	\$159,027,833
Supervisory Group**	3	376	\$157,248,301	3	376	\$157,248,301
Enforcement Action Group	1	1,961	\$1,038,514,577	1	1,961	\$1,038,514,577
Total	268	59,744	\$26,171,981,678	268	59,744	\$26,171,981,678

through 2/28/13

CDC Authority Stratification

504 Authority by SBA Risk Rating

Risk Rating	PCLP/ALP	ALP	504 REG
1		7	27
2	7	21	29
3	9	31	69
4	1	7	33
5			26
Total	17	66	184**

2 PCLP CDCs do not have an active PCLP loan

504 CDCs with PCLP Loans

Active PCLP Loans by CDC Authority	# of CDCs	# of Loans	Gross Active Balance
PCLP Delegated	15	6,848	\$1,706,139,829
<i>PCLP Participation Disbursements Last 12 Months*</i>	4	28	\$11,696,694
ALP CDCs with Active PCLP Loans	11	1,635	\$242,386,352
Non-Delegated CDCs with Active PCLP Loans	6	292	\$33,569,939
Total	32	8,775	\$1,982,096,120

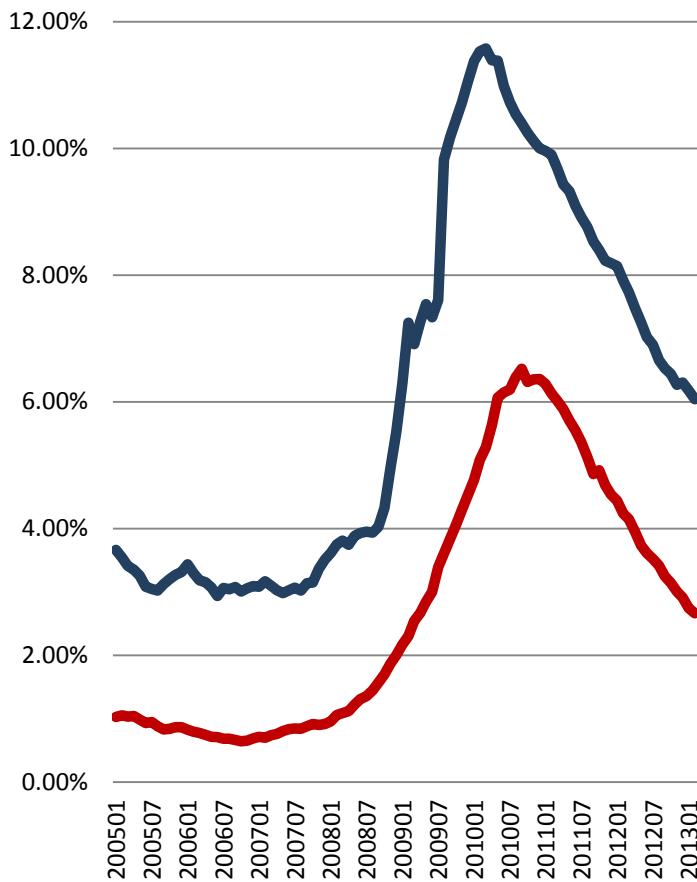
CDC Authority	# of CDCs	# of Loans	Gross Active Balance
PCLP/ALP	17	14,638	\$7,246,644,125
ALP Only	66	26,347	\$10,696,351,011
Non-Delegated	184	16,798	\$7,190,471,967
Total**	267	57,783	\$25,133,467,102

*Not included in totals

** Excludes Enforcement Action Group

Note 1: Lender reported data through 2/28/13

504 Loan Portfolio Trends



Fiscal Year End	Gross Active Balance	Stressed Balance *	Gross Disbursed	Last 12 Month Purchases	Purchase Rate
2005	\$13,470,446	\$420,730	\$3,414,784	\$112,656	0.83%
2006	\$16,027,942	\$492,798	\$4,329,401	\$107,195	0.66%
2007	\$18,829,639	\$590,608	\$4,834,755	\$167,223	0.88%
2008	\$21,442,925	\$863,698	\$5,131,255	\$341,642	1.57%
2009	\$22,789,536	\$2,317,567	\$3,870,731	\$908,787	3.83%
2010	\$23,269,832	\$2,418,680	\$3,534,916	\$1,622,880	6.52%
2011	\$23,860,047	\$2,035,831	\$3,740,389	\$1,218,426	4.86%
2012	\$25,348,446	\$1,655,825	\$4,786,651	\$850,347	3.25%

— Purchase Rate — Stressed Rate

Active Purchase Balances: 2012 = \$2.579B
2013 = \$2.058B

*Stress balance includes Past Due, Deferred, Delinquent, and Catch-up

Note 1: Dollars in thousands

NADCO CEO Survey Risk Issues

- ▶ Internal controls
 - ▶ improvement needed - board required by current regulations to adopt an internal control policy which provides effective control over CDC – goes to board governance – required by 120.826(b).
- ▶ Independent loan review
 - ▶ SBA is providing streamlined/delegated authorities which increases need for CDC to beef up its controls. However, most CDCs reported non-compliance with independent loan review requirement – required by 120.826(b)(3)(ii).
- ▶ Risk Classification
 - ▶ Goes to 120,826(b)(3)(ii) – goes to CDC management and internal controls.
- ▶ Share SBA information with Board
 - ▶ Board is required to provide oversight of CDC and should be aware of SBA's primary oversight reporting tool – goes to board governance.
- ▶ Audit committee
 - ▶ Board governance
 - ▶ Annual Strategic Plan
 - ▶ Planning and management
 - ▶ CDC executive compensation
 - ▶ Varied policies and reviews
 - ▶ Detailed board minutes
 - ▶ Best practices and board governance. Varied policies.

SMART and New Regulations

S

• Solvency and Financial Condition

- 120.823(d)(9) Board ensures CDC maintains adequate reserves

M

• Management and Governance

- 120.822 Eliminate Membership
- 120.823(a) Emphasize Board Accountability
- 120.823(c) Oversight Responsibilities
- 120.823(d)(3) Board sets salaries
- 120.823(d)(6) Independent Loan Reviews
- 120.823(d)(12) and (d)(13) Board Accountability and Internal Controls
- 120.830(a)(2) Executive Compensation/IRS 990

A

• Asset Quality and Servicing

- 120.823(d)(7)&(8) Board Monitors Portfolio/Semi-annual status reports
- 120.823(d)(14) Approvals of Loans over \$2,000,000

R

• Regulatory Compliance

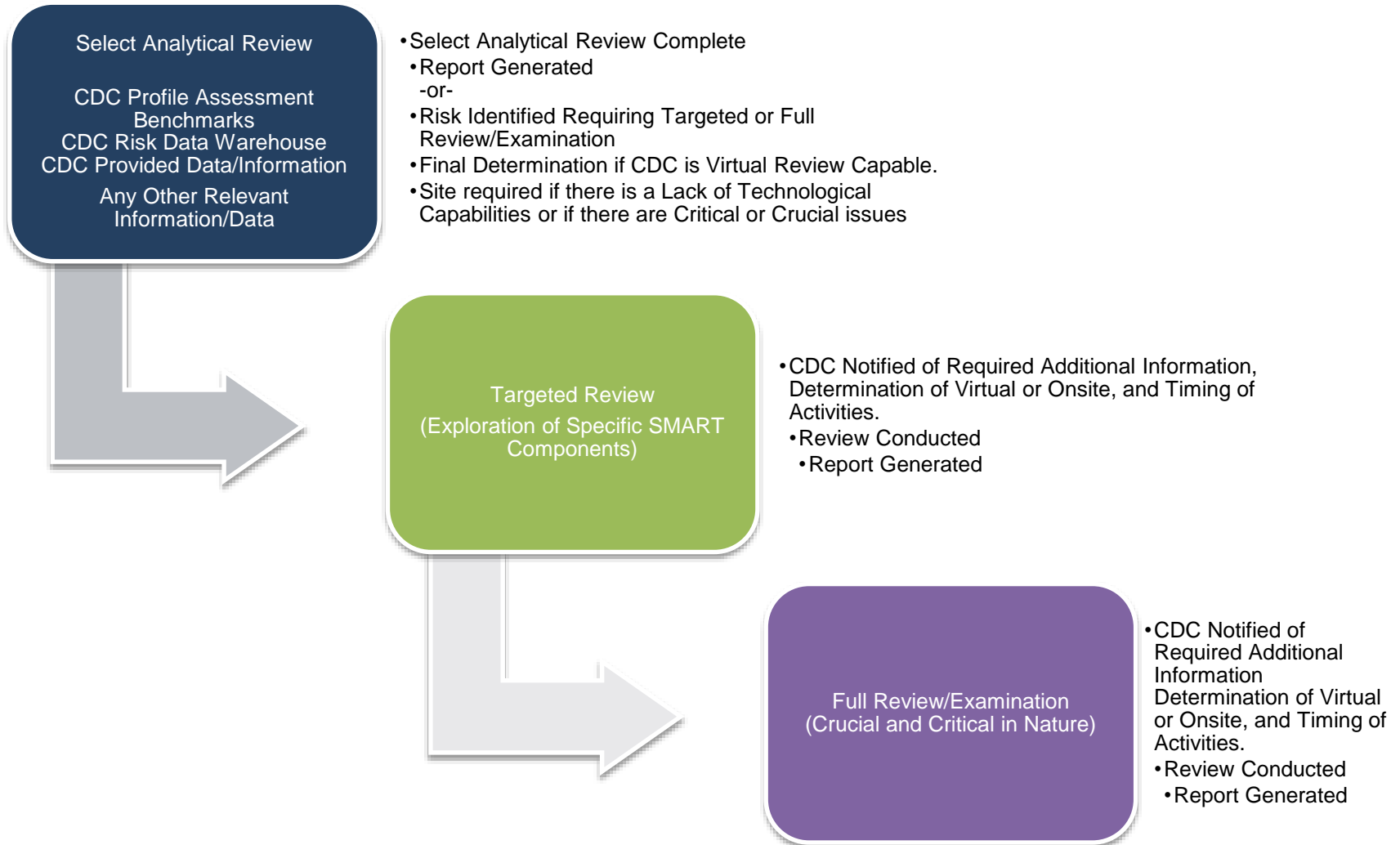
- 120.816 CDC non-profit status and good standing
- 120.823(d) Board oversees compliance with SBA requirements and bylaws

T

• Technical Issues and Mission

- 120.823(e) D & O/E&O Insurance - \$5.5M/\$50K Deductible
- 120.830(a)(3) Economic development activity/reinvestment

Review Process – Oversight and Monitoring



Types of Review and Review Scoping

▶ **Types of Review**

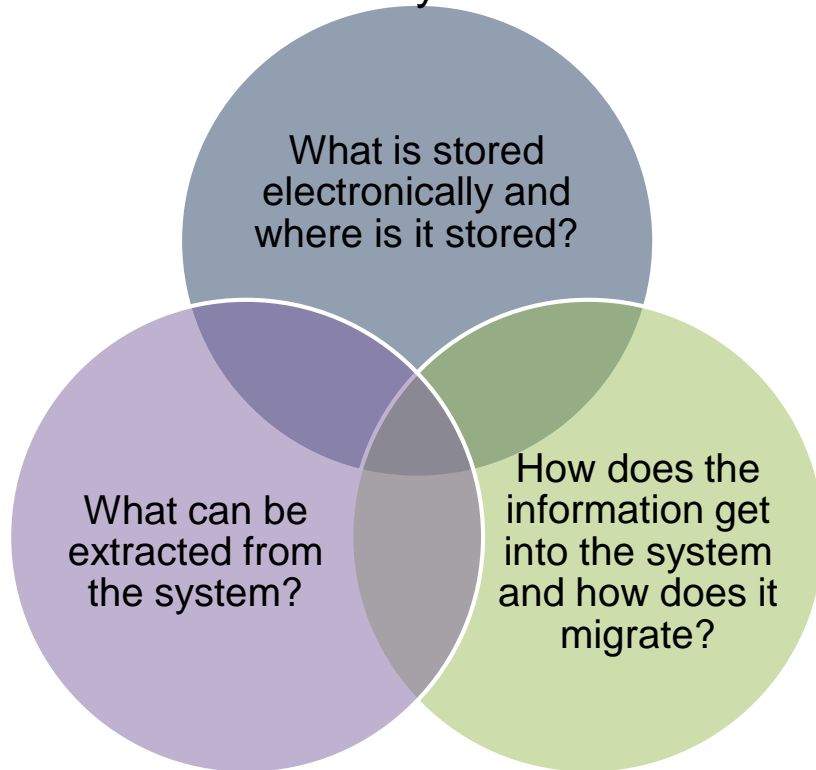
- ▶ Select Analytical Review
 - ▶ Data Driven
 - ▶ Used to determine if a Targeted/Full Review is necessary.
 - ▶ Used for ALP recertification.
 - ▶ Always conducted virtually
- ▶ Targeted
 - ▶ Targets specific components of SMART that show red flags
 - ▶ Can be conducted both virtually or on-site
- ▶ Full
 - ▶ Used when red flags are critical or crucial in nature
 - ▶ Examines all components of SMART
 - ▶ Can be conducted both virtually and on-site.

▶ **Review Methods**

- ▶ Virtual
 - ▶ Data/Files submitted to data warehouse for Review
 - ▶ Conferences held by teleconference
 - ▶ Depends on CDCs technology
 - ▶ Preferred method of Review
- ▶ Site
 - ▶ Used if CDCs does not have technological capabilities for Virtual Review.

Functional Components of CDCs Technology Capabilities

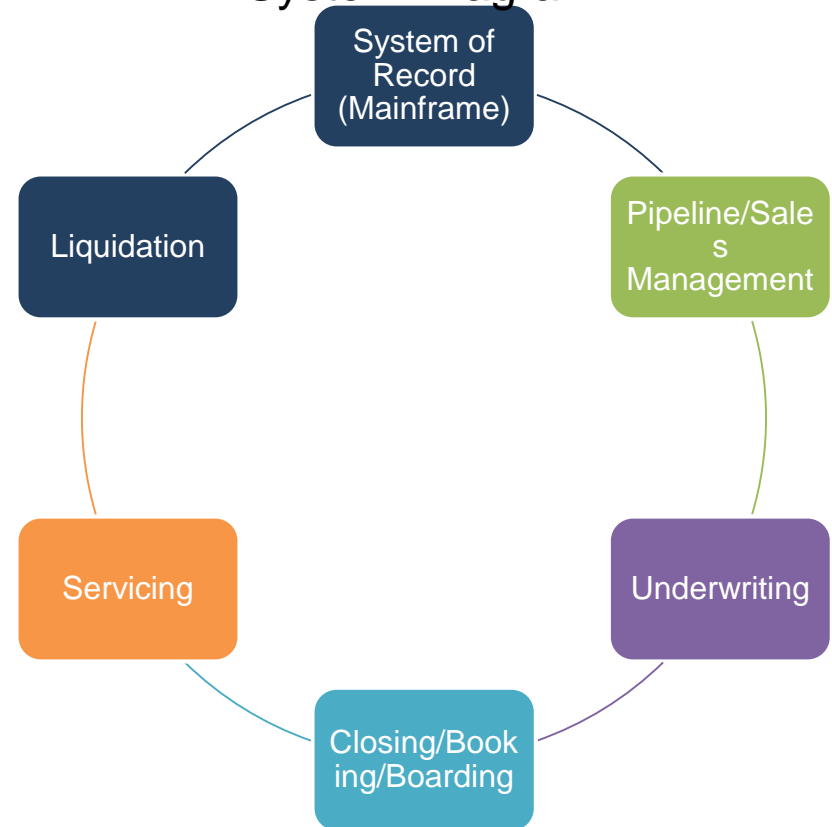
CDC Systems



Type

- ▶ Licensed
- ▶ LSP's (Service Providers)
- ▶ Internally Developed

System Diagram



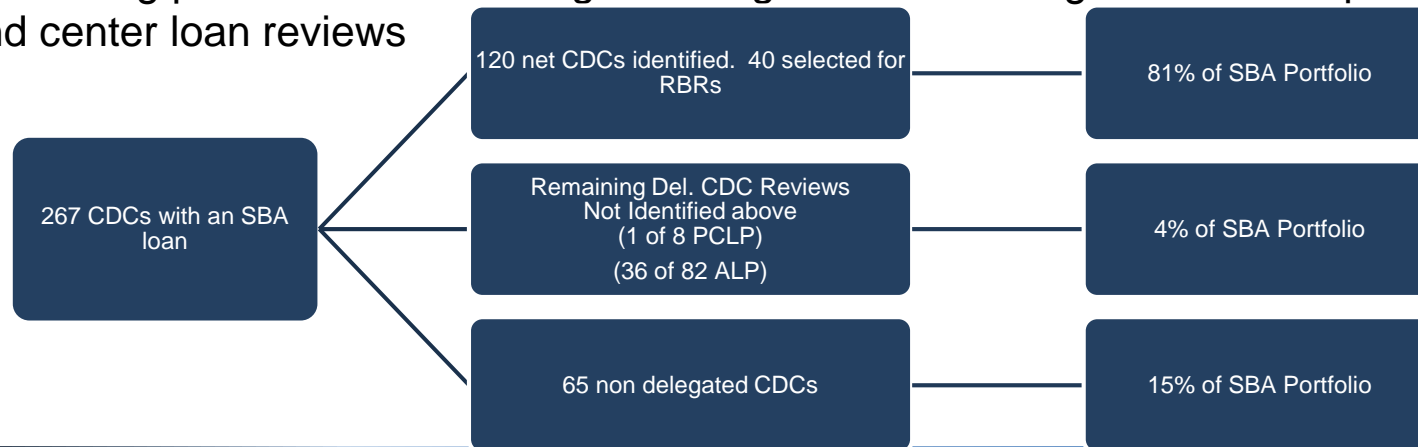
Points of Contact

- ▶ SBA Management
- ▶ Information Technology/Management Information Systems key personnel

Preliminary Selection Criteria for 2013-2014

Risk Based Reviews Program

- ▶ Preliminary selection criteria for 2013-2014 reviews:
 - ▶ 51 CDCs with >\$100mm in outstanding SBA guarantees
 - ▶ 28 CDCs >\$30mm and <\$100mm in SBA guarantees and a risk rating of 4 or 5
 - ▶ 8 CDCs >\$30mm and <\$100mm in SBA guarantees and a 'Marg Accept' or '<Accept' review <2 years
 - ▶ 10 All other CDCs with a 'Marginally Acceptable' or 'Less than Acceptable' review within past 2 years
 - ▶ Random selection of remaining (41) CDCs with a risk rating of 4 or 5 or other CDCs
- ▶ These CDCs account for 81% of the SBA portfolio in dollars
- ▶ Remaining portfolio will be managed through OCRM's delegated renewal process and center loan reviews

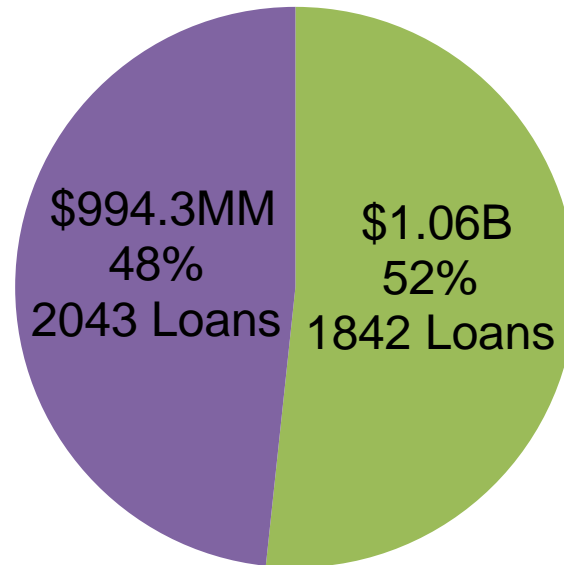


ALP Renewals Change Over To OCRM

- Renewal submission process will not be directly affected by this change.
 - Continue to submit renewal request to district office.
- Updating processing
 - Using new SMART protocol
 - Align Risk-Based Review with Delegated authority renewals.
 - Select Analytical Review will be conducted in tandem with delegated renewals.
- Compliance with reporting and mission
 - Other economic development activates
 - PCLP reserves and LLRF reporting
 - Quality Assurance Reviews from District Council

Number of ALP Renewals			
As of March 11, 2013			
Year/Month		Year/Month	
2013	# of CDC	2014	# of CDC
May	6	Feb	3
Jun	12	Mar	1
Jul	18	Apr	2
Aug	24	May	1
Sep	4	Jul	2
Oct	3	Sep	1
Nov	1	Nov	1
Dec	3	Total for 2014	11
Total for 2013	71	Grand Total	82

Active Purchase Loans



■ Top 25 CDCs

■ Remaining 208 CDCs

	# and \$ by Months in Active Purchased Status					
	All	< 1 Yr	< 2 Yrs	< 3 Yrs	< 4 Yrs	4 Yrs or greater
Loans in Active Purchased Status	3,885	1,142	934	752	367	690
Dollars in Active Purchased Status	\$2,058,000,584.80	\$616,399,365.14	\$554,780,227.37	\$482,514,990.92	\$208,068,932.15	\$196,237,069.22
% of # by Month Range		29.4%	24.0%	19.4%	9.4%	17.8%
% of \$ by Month Range		30.0%	27.0%	23.4%	10.1%	9.5%

SOP Revisions are underway to align SOP 50 10 5 with new oversight framework

- ▶ SOP revisions will reflect meaningful changes to 504 lending and oversight
- ▶ Revised Subpart A will describe OCRM's new oversight framework for risk-based reviews including:
 - ▶ 504 SMART performance benchmarks
 - ▶ Criteria for delegated status
 - ▶ Selection criteria for reviews
 - ▶ Scope for select, target, and full reviews
 - ▶ Criteria and procedures for supervision and enforcement actions

504 Rating Components

S

• Solvency and Financial Condition

M

• Management and Governance

A

• Asset Quality and Servicing

R

• Regulatory Compliance

T

• Technical Issues and Mission

- ▶ SBA is further contemplating merging Subpart A to SOP 50 53 to cover CDC enrollment, oversight, supervision, and enforcement
- ▶ SBA is creating a new SOP 50 55 that will consolidate 504 Loan Servicing and Liquidation procedures into one SOP.

OCRM – Key Take Away's

- ▶ Developmental Review Scope for CDC's (2013)
 - ▶ 20 Selected Analytical Reviews
 - ▶ 5 Target Reviews
 - ▶ 5 Full Reviews
- ▶ ALP Transition to OCRM
 - ▶ 64 ALP Delegation Reviews by Sept. 2013
 - ▶ 8 ALP Reviews (Oct. – Dec. 2013)
- ▶ Active Purchase Review: \$2.1 Billion (3,885 loans)
- ▶ LSP Review & Operational Services
- ▶ Impact: Governmental & New Reg.
- ▶ SOP Update 5010-5 & 50-53