



Office of Credit Risk Management
Implementing SMART
Risk Based Review and Risk Benchmarks

Presentation for the NADCO Conference- **“OCRM Reviews & Rating – Update to SMART”**

Hotel Del Coronado, San Diego, CA

May 15 – 18, 2013

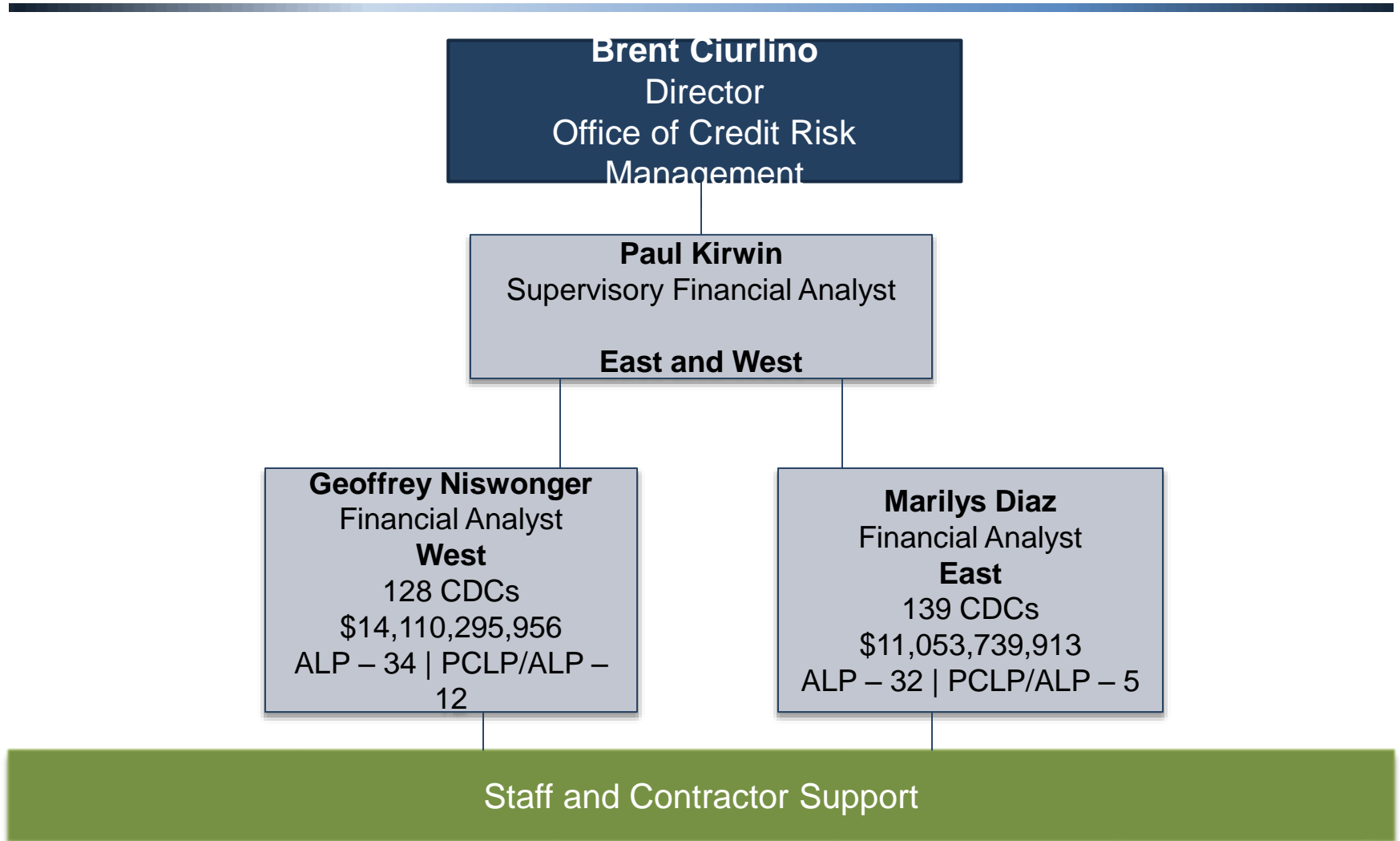
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Discussion Overview

- ▶ 504 Organizational Chart
- ▶ SBA Portfolio Overview and Performance Trends
- ▶ Update on new CDC Risk Rating Model
- ▶ SMART and New Regulations
- ▶ Progress in Risk-Based Review Platform Redevelopment
 - ▶ Risk-Based Review Program Overview
 - ▶ Select Analytical Reviews/Targeted Reviews/Full Reviews
 - ▶ Technology and SMART
 - ▶ Preliminary Selection Criteria for Risk-Based Reviews
 - ▶ Preliminary Benchmarks
- ▶ ALP Renewal Change Over and Processing
- ▶ OCRM CDC Assessments
- ▶ Active Purchase Loans
- ▶ Review Costing and SOP Revisions – 50 10 5(E)/50 53(B)/50 55
- ▶ Discussion Topics

Distribution of Notice of Intent & Request for Information, CDC Profile Assessment Report

OCRM 504 Organizational Chart



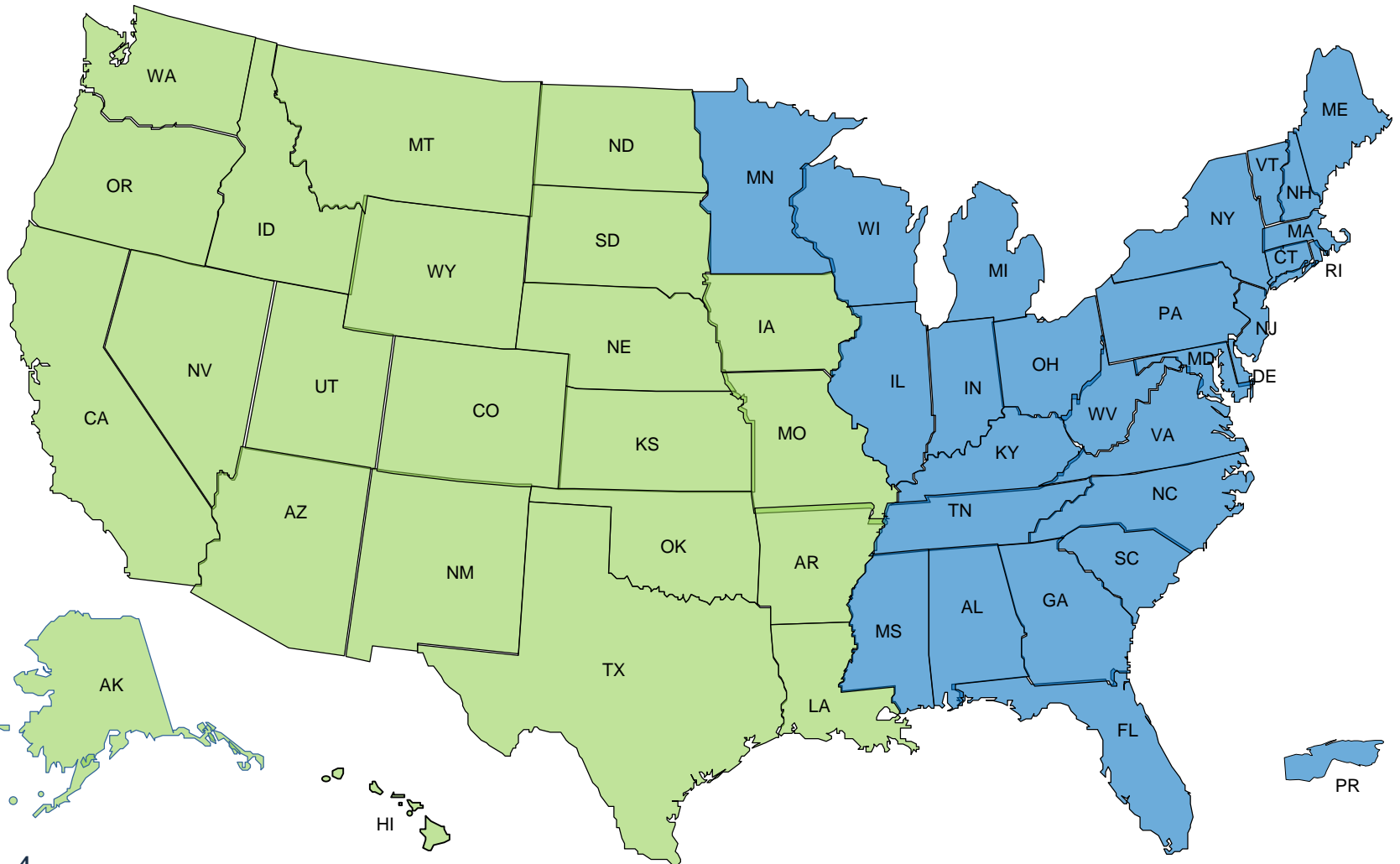
OFFICE OF CREDIT RISK MANAGEMENT
Geographic Assignment East/West

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
Thousands

*Balance does not include unscored loans

**Dollars in

504 RBR Assessments versus Calculated Risk Ratings (historical)

2011

Rating	Risk Ratings					Total
	1	2	3	4	5	
Acceptable		1				1
Acceptable w/ Corr Action		2	7	1		10
Less than Acceptable		1	3	5	2	11
Total		4	10	6	2	22

2012

Rating	Risk Ratings					Total
	1	2	3	4	5	
Acceptable				1		1
Acceptable w/ Corr Action		2	2	1	1	6
Marginally Accept w/ Corr Action		1		1		2
Less than Acceptable		2	5	2		9
Total		5	7	5	1	18

504 CDC Activity Stratification

	# of 504 CDCs	Gross Active Balance	% of 504 Portfolio
Total CDCs	270	\$26,202,550,448	
Inactive CDCs:			
Enforcement Action Group	1	\$1,038,050,579	4.0%
With No Active Loans	2	\$0	0.0%
No Disbursements (past 3 years)	10	\$87,577,322	0.3%
No Disbursements (past 1 year)	5	\$13,403,110	0.1%
Inactive Total:	18	\$1,139,031,011	4.3%
Active CDCs:			
<10 Disbursements/Year	101	\$1,752,158,932	6.7%
10-49 Disbursements/Year	114	\$7,589,929,545	29.0%
50-99 Disbursements/Year	18	\$3,870,675,024	14.8%
100+ Disbursements/Year	19	\$11,850,755,936	45.2%
Active Total:	252	\$25,063,519,437	95.7%

267 CDCs with at least one active loan on SBA books

Active defined as at least one disbursement in past 12 months

** CDC reported data through 2/28/13*

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

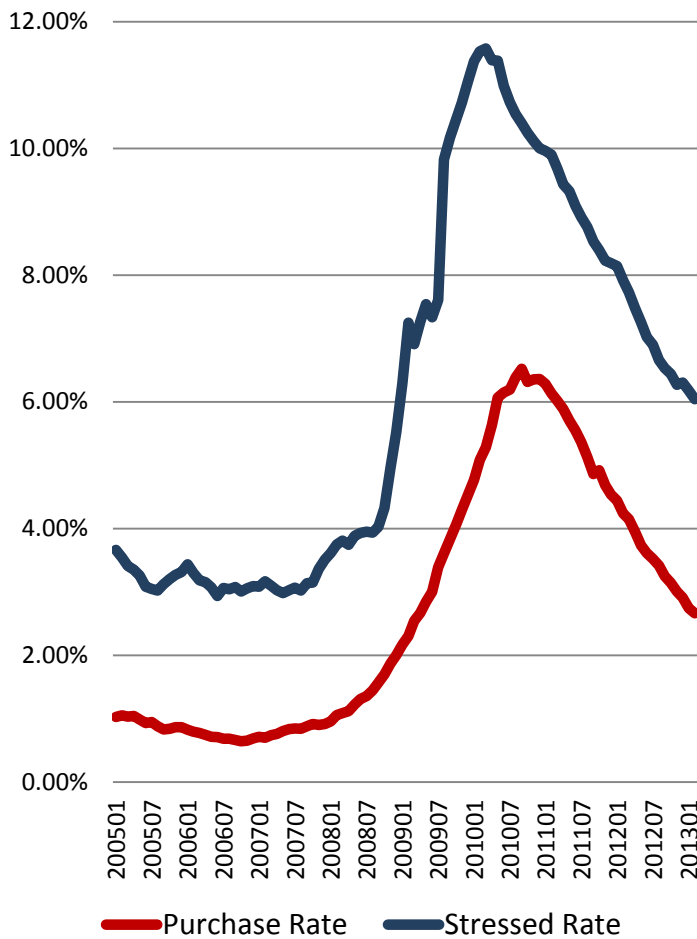
CDC Authority	# of CDCs	# of Loans	Gross Active Balance
PCLP/ALP	17	14,638	\$7,246,644,125
ALP Only	66	26,347	\$10,696,351,011
Non-Delegated	184	16,798	\$7,190,471,967
Total**	267	57,783	\$25,133,467,102

*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%

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

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

Note 1: Dollars in thousands

Model Comparison: 504

	Current Model	New Model
Outcome	Raw score indicating average probability of a loan purchase event	Loan-Level PPR; Predicted 12-month \$ Purchased and rate (CDC Level); Risk Categorization (1-5)
Variables	6-month Liquidation rate 6-month net cash flow (CDC: positive or negative) FSS Score Delinquency Rate (CDC) Past Due Rate (CDC) Last 12-Month Purchase Rate (CDC) Delivery Method SBPS Score Average Age (MOB), Total Dollars (Discretized)	SBPS MOB Loan Status D&B Detailed trade Attributes Total Accounts % Accounts Past Due Avg % Accounts 31+ Past Due in Last 3 months Age of Business Pct of Trade Experiences Current (split manner) Housing Price Index Seasonally Adjusted Year over Year change by State

New LRR Salient Features

- ▶ Redevelopment leveraged multiple modeling methodologies
- ▶ **Remove delivery method from model**
- ▶ In addition to performance data, SBPS scores and data elements used in the past, the following additional elements were analyzed:
 - ▶ D&B Trade data
 - ▶ Macro-economic
 - ▶ HPA (Quarterly housing price appreciation per state)
 - ▶ GDP (% change)
 - ▶ Unemployment Rate
- ▶ Predictors are very intuitive and model is powerful and simple making it easier to discuss, review and understand.
- ▶ **Model can be applied to subsets of CDC's portfolio.**

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

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

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

Progress in SMART Risk Based Review Redevelopment

Risk-Based Review Program Overview

- ▶ New oversight framework defines SBA's risk tolerance and includes:
 - ▶ New CDC Risk Rating Model in development
 - ▶ Clear selection criteria for risk-based reviews
 - ▶ Three scopes of review:
 - ▶ 1. Select Analytical Review
 - ▶ 2. Targeted Review
 - ▶ 3. Full Review
 - ▶ OCRM is developing benchmarks for evaluating preferred, acceptable, and less than acceptable lender performance for quantitative SMART components
 - ▶ Remove override downgrade risk rating
 - ▶ Correlate delegated renewal process with risk-based reviews when possible
 - ▶ Delegated renewal decisions will be based on defined criteria and benchmarks where applicable
- ▶ Scope of oversight will be based on ability to meet performance benchmarks and technological capabilities (e.g., providing loan files via data room)
- ▶ Supervisory and Enforcement implications for noncompliance with performance standards and loan program requirements
- ▶ SOP 50 10 5(E) revisions in progress
 - ▶ Lay out clear oversight framework in Subpart A and migrate to SOP 50 53 (A), to cover enrollment, oversight, supervision, and

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

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.

Review Types Defined

Select Analytical Review (SAR)

*Notice of Intent with Request for Information (RFI)

*CDC Profile Assessment

Primarily Data Driven

Initial Assessment Of All Components Of SMART

SBA Data/Information

3rd Party Data/Information

CDC Data/Information

SBA Centers/District Office Data/Information

Targeted Review

Risk Flag Elements Identified In Specific Components Of SMART Requiring A Focused Scope Of Review For The Identified Component(s).

Full Review/Examination

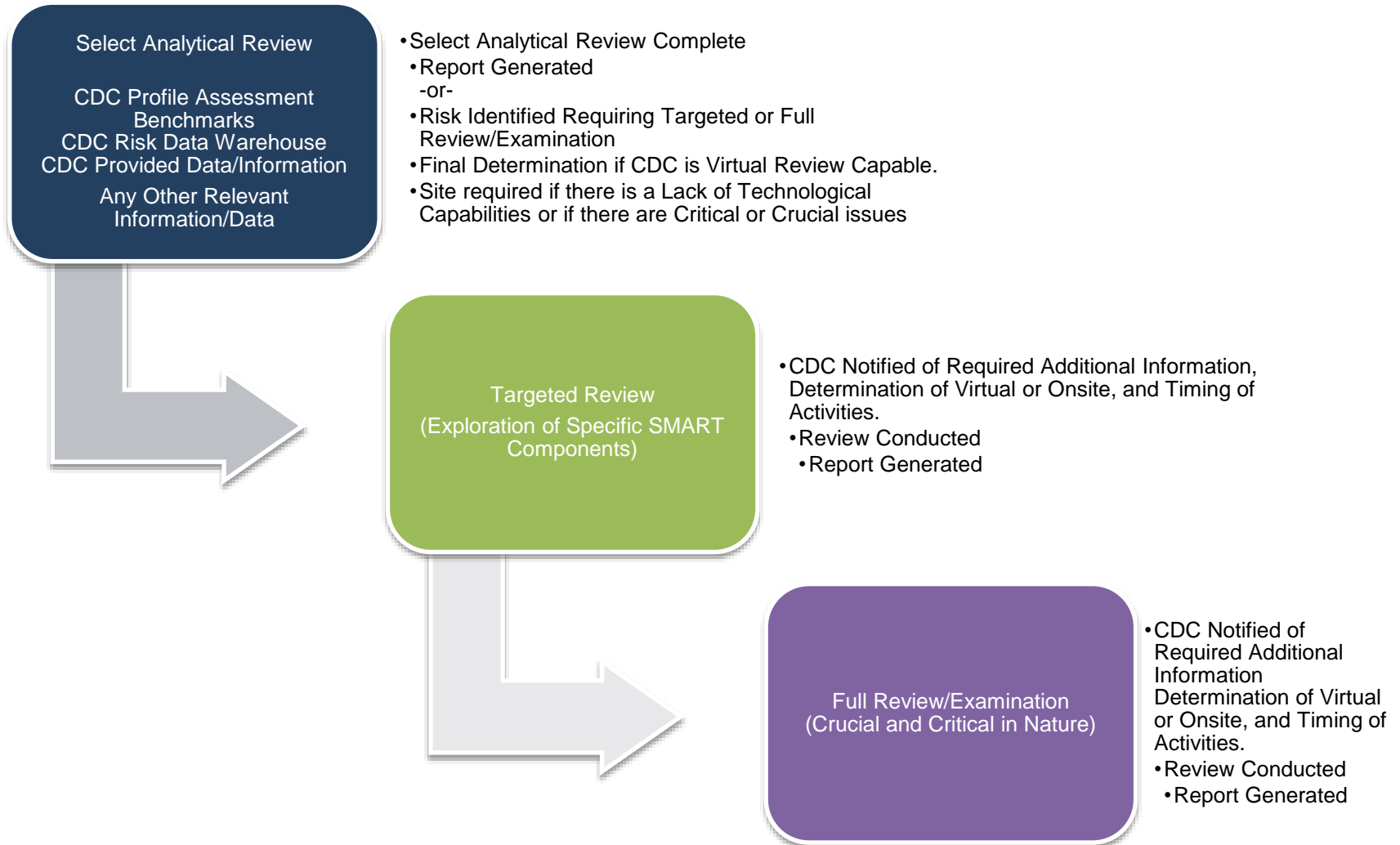
Risk Flag Elements Identified In Each Component Of SMART Requiring A Full Scope Of Review.

Virtual Review Capability vs. Site Review

OCRM Will Be Moving To Utilize Virtual Review Capabilities Through Data, Data Rooms, And Digital Images. If The CDC Does Not Possess The Capabilities To Conduct A Virtual Review or If OCRM Identifies Issues (e.g., Critical Or Crucial In Nature) A Site Review may/will be conducted.

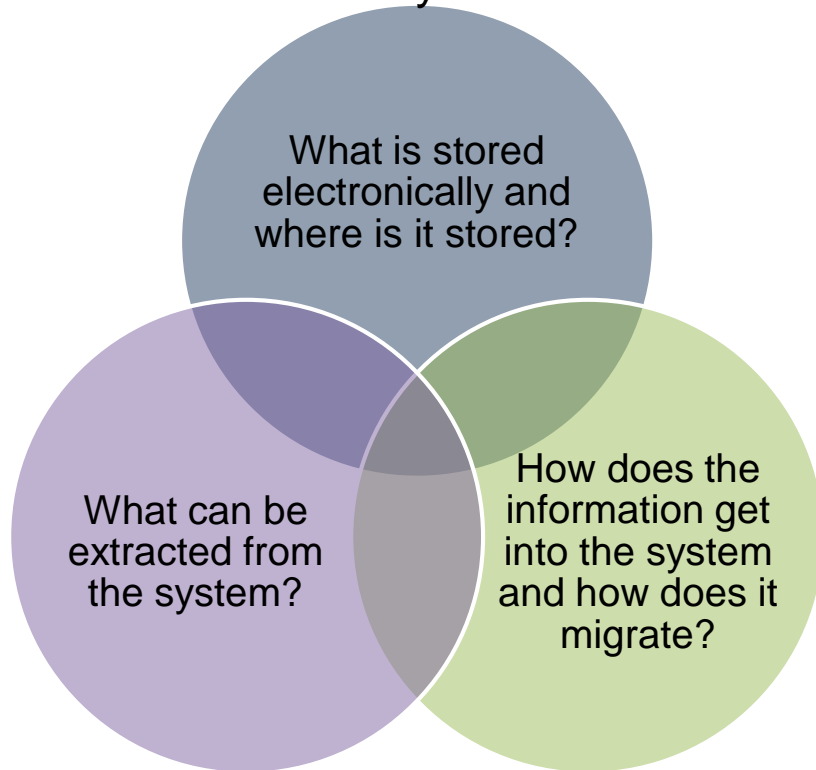
*The Notice of Intent , RFI, and CDC Profile Assessment have been provided as a handout.

Review Process – Oversight and Monitoring



Functional Components of CDCs Technology Capabilities

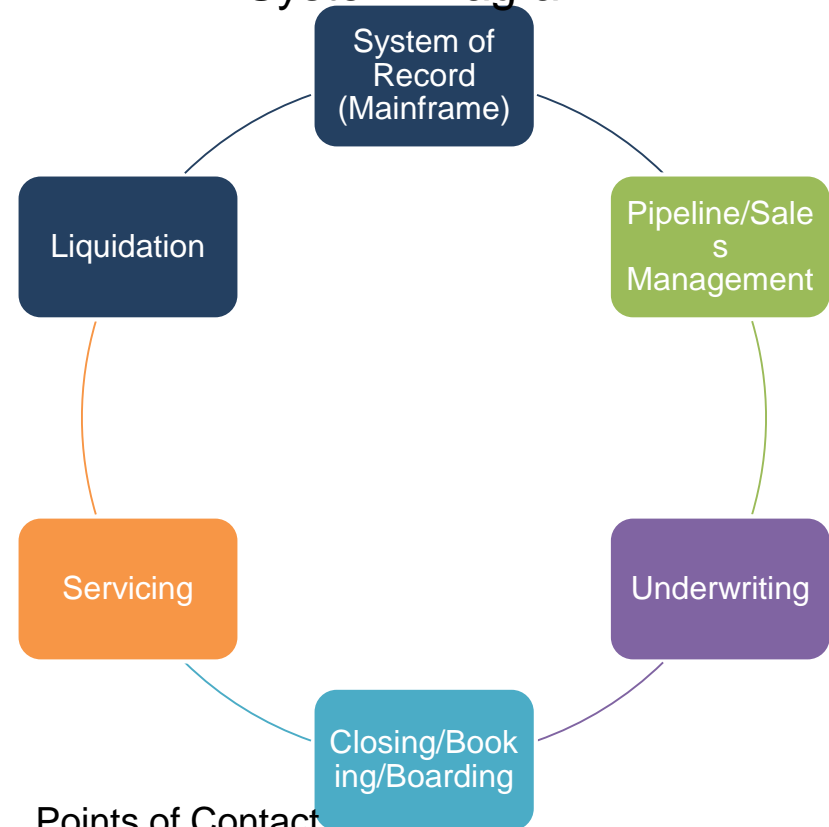
CDC Systems



Type

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

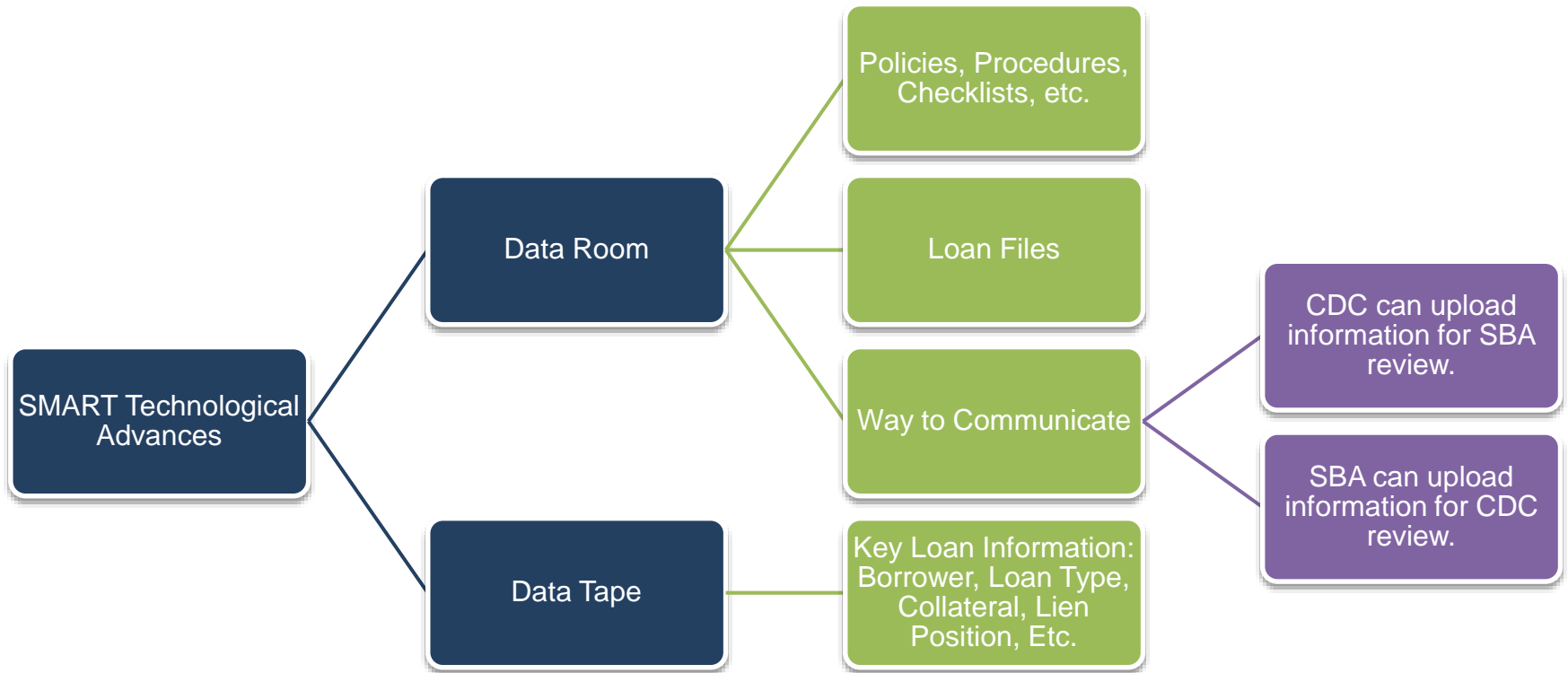
System Diagram



Points of Contact

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

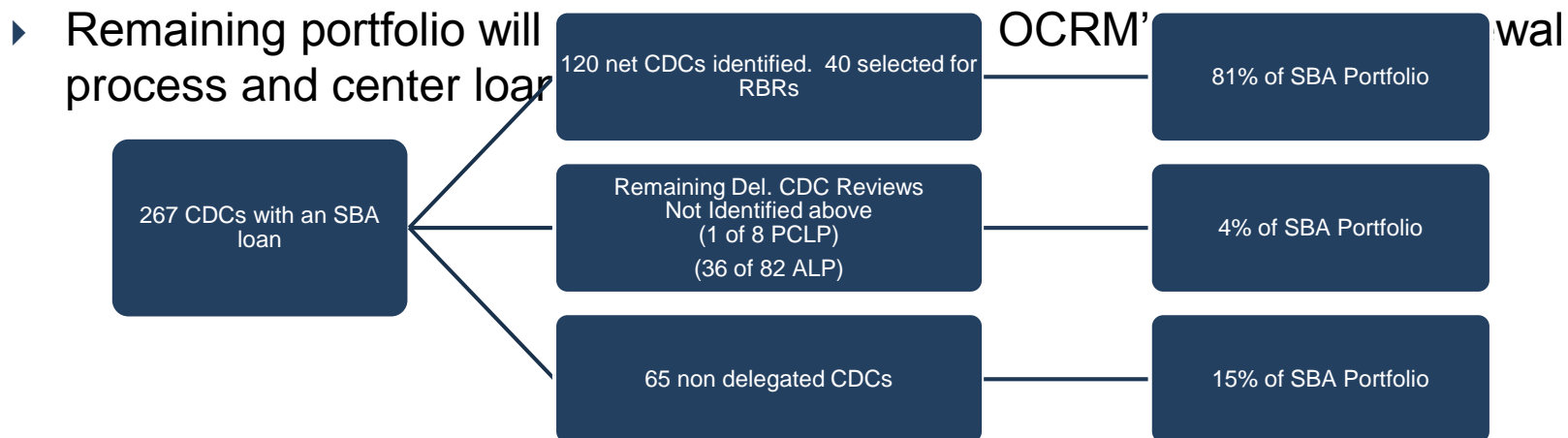
How SMART can use technology



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



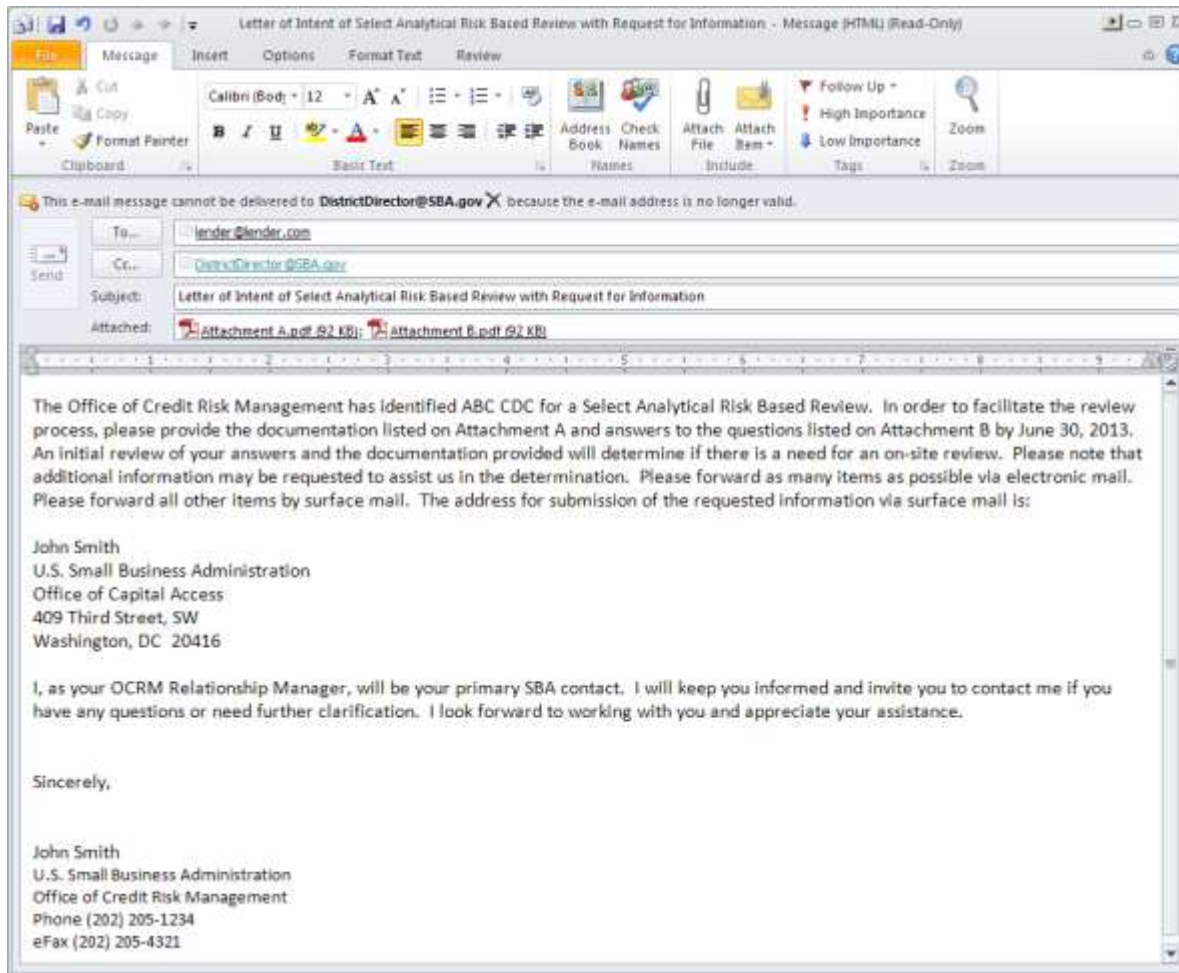
CDC Profile Assessment

This assessment summary provides the SBA analyst a clear and concise snapshot of the risks associated with the CDC's activities aligned with each component of SMART

U.S. Small Business Administration Office of Credit Risk Management				CDC Profile Assessment	
Wednesday, May 01, 2013				CDC Name and FIRS #	
Lender Reported data as of 5/31/12				Financial Analyst Name	
Type of review					
Report Summary					
CDC			Review Assessment		
FIRS #			Analyst Completing Review	Name	
CDC Address					
Region			Last Review Date		
District	State		Previous RBR Assessment		
District Contact			Management Contact Name/ Title		
Delegated Authority					
As of Date			As of Date		
Active Loan Portfolio			Total Net Assets (equity):		
Active Purchase Loans			Dollar Change in Net Assets:		
Total Loans Disbursed (last 36 months)			Current PCLP/Loan Loss Reserve Amount		
Franchise Concentration (Top 3)					
Franchise Name	\$	%			
NAICS Concentration (Top 3)					
NAICS	\$	%			
Assessments / Findings					
Analyst Recommendations					
This report is strictly confidential.					
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*The CDC Profile Assessment has been provided as a handout.

Notice of Intent with Request for Information (RFI)



Attachment A to Notice of Review SBA 504 Loan Program Review

Items Requested (Please send copies; not original documents.)

- Interim financial statement as of March 31, 2013.
 - Current organization chart and a summary of delegations and responsibilities for the SBA program executives and program managers.
 - Most recent list of Board, Credit Committee, Executive Committee, and Audit Committee members as applicable.
 - Minutes of all Board meetings for the last 24 months. Minutes of the most recent Credit Committee, Executive Committee, and Audit Committee meetings as applicable.
 - Final or drafts received within the last two years relating to your SBA lending program resulting from:
 - Internal audits, examinations, reviews and management letters;
 - External audits, examinations, reviews and management letters; and
 - Management's response and a summary of actions taken to address the findings and recommendations of each audit, examination or review.
 - Credit policy manual, loan servicing policies and procedures manual, and loan quality classification (risk rating) methodology.
 - Executive compensation policy.
 - Description of the internal and/or external methodology employed, including credit scoring techniques if applicable, utilized to:
 - Screen or evaluate for loan approval; and
 - Risk rating existing loans.
 - Strategic and current operating plans, budgets and comparative performance reports related to the program objectives for SBA portfolio growth, performance, product lines, and geographic and industry (i.e. NAICS) concentrations.
 - If agents are used – provide your policy and narrative describing any relationships with non-employee commissioned or any other type of non-employee loan application agents, brokers or similar individuals.
 - For all loans referred by an agent/broker, provide a list of loans by agent/broker and the current status of each loan (current, past due, in deferment, in liquidation, charged off.)
 - Description of investments in other local economic development activities in your local areas of operation.
 - Articles of Incorporation and By-Laws.
- Most recent month-end Colson report on outstanding loans.

Attachment B to Notice of Review SBA 504 Loan Program Review

Please provide answers to the following questions:

1. What, if any, significant changes have been made regarding delegations, authorities, responsibilities, and structure since the last Risk Based Review.
2. What training has your staff received to maintain fluency regarding originating and servicing 504 loans?
3. Do you use service providers for any origination functions? If so, please provide the name(s) of the service providers, and also:
 - Provide any report(s) generated regarding service provider's performance.
4. Please describe your department structure/function for ongoing servicing and for liquidation activities.
5. Do you use service providers for any servicing functions? If so, please provide the name(s) of the service provider(s), and also:
 - Provide a narrative describing the authorities, delegations, and capacities of the service provider(s).
6. What is your business model for resolutions (liquidations/purchase requests)?
 - Is it centralized or decentralized? Please explain.
 - Are SBA liquidations managed by a "special assets" department that is specific to SBA lending? If not, how do you ensure SBA requirements are met?

*The Notice of Intent and RFI have been provided as a handout.

SMART Benchmarks Under Consideration

SMART BENCHMARKS				
S - Solvency and Financial Condition	M - Management & Operations	A - Asset Quality and Servicing	R - Regulatory Compliance	T - Technical Issues and Mission
* cumulative net yield for 5 years (Ratio) Rate of return and expenditures for 5 years.	* PPR Predictive measure of the relative future riskiness of the CDC's 504 loans over the next 12 months.	* past due Percent of loan balance not paid on schedule	* Annual Report submission	* loan agents Ratio of where there was a gross disbursement when agent was paid in the last 24 months and last 24 month disbursements
* Cash flow of CDC Net increase in cash/cash on hand at beginning of period	* High risk originations in 36 months Loan where the origination SBPS score was more than 0 and less than 160 in the last 36 months	* delinquency Percent of loan balance where borrower is behind or late in payments	* PCLP LLRF Reporting	* franchise Ratio of \$ franchise disbursement and total disbursement in 24 months
* Profitability Net income	* loans in liquidation for more than 3 years (Ratio) Loans in liquidation for more than 3 years/all loans in liquidation	* liquidation (Ratio) \$ liquidation proceeds and loan balance	* Liquidation updates to SBA Loan Servicing Center (Little Rock and Fresno)	* concentrations
* Reserves reserve as % of annual revenue		* 12 month purchase rate Rate at which loans are purchased over 12 months	* Other economic development activities (non-504)	* program evaluation (ACL, ALP, PCLP)
* Viability Ratios change in unrestricted net assets/total unrestricted income current rate/current liability		* last 12 month charge off rate Rate at which loans are charged off over 12 months	* Loan Classification	Growth over 24 months
		* early default (36 month rolling) (Ratio) Dollars purchased within 18 months/gross disbursed over 36 months	* Internal Control Policy	Loans over \$2M
		* early problem loan rate (36 month rolling) \$ Noncurrent status/gross disbursed for 36 months	* 4 Loan Approvals	
		* time to liquidation (loans originated in past 24 months)	* Board Meeting Requirements Questions	
		* Deferment Rate (Ratio) \$ deferments and \$ loan balance	* Staffing	
		* Stressed Rate (Ratio) \$ of loans that are deferred, past due, delinquent, or in liquidation and \$ loan balance		
		* Catch-up Rate		
		* Active Purchase Rate (Ratio) \$ loans purchased and \$ loan balance		
		* Recovery Rate (Ratio) \$ recovered for each loan and purchase balance		

Preliminary SMART metrics and benchmarks

S

• Solvency and Financial Condition

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Cumulative Net Yield (5 Years)	0%	Between -1% and -5%	<-5%
Cash Flow of CDC	[TBD]	[TBD]	[TBD]
Profitability	[TBD]	[TBD]	[TBD]
Reserves	[TBD]	[TBD]	[TBD]
Viability Ratio	[TBD]	[TBD]	[TBD]

M

• Management and Governance

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Projected Purchase Rate	<2.1%	Between 2.1% and 4.2%	>4.2%
High Risk Originations	<5%	Between 5% and 20%	>20%
Loans in Liquidation more than 3 years	[TBD]	[TBD]	[TBD]

Preliminary SMART metrics and benchmarks (cont'd)

A

• Asset Quality and Servicing

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Calculated Risk Rating	"1 or "2"	"3"	"4" or "5"
Past Due Rate	<0.1%	Between 0.1% and 2.4%	> 2.4%
Delinquency Rate	< 0.6%	Between 0.6% and 10.6%	> 10.6%
Liquidation Rate and Active Purchase Rate	< 2.2%	Between 2.2% and 15.8%	> 15.8%
12 Month Purchase Rate	<15%	Between 15% and 30%	>30%
Last 12 Month Charge off Rate	< 0.8	Between 0.8% and 7.2%	> 7.2%
Early Default Rate	< 1.2%	Between 1.2% and 12.5%	> 12.5%
Early Problem Loan Rate	<1%	Between 1% and 4%	>4%
Time in Liquidation	<5%	Between 5% and 15%	>15%
Deferment Rate	[TBD]	[TBD]	[TBD]
Stress Rate	< 0.24%	Between 2.4% and 4.41%	> 4.41%
Catch-up Rate	< 2.63%	Between 2.63% and 29.34%	> 23.4%
Recovery Rate	< 1.15%	Between 1.15% and 10.91%	> 10.91%

Preliminary SMART metrics and benchmarks (cont'd)

R

• Regulatory Compliance

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Annual Report Submission	[TBD]	[TBD]	[TBD]
PCLP LLRF Reporting	[TBD]	[TBD]	[TBD]
Liquidation updates to SBA	[TBD]	[TBD]	[TBD]
Other economic development activities	[TBD]	[TBD]	[TBD]
Loan Classification	[TBD]	[TBD]	[TBD]
Internal Control Policy	[TBD]	[TBD]	[TBD]
4 Loan Approvals	[TBD]	[TBD]	[TBD]
Board Meeting Requirements			
Questions	[TBD]	[TBD]	[TBD]
Staffing	[TBD]	[TBD]	[TBD]

T

• Technical Issues and Mission

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Loan Agents	[TBD]	[TBD]	[TBD]
Franchise	[TBD]	[TBD]	[TBD]
Concentrations	[TBD]	[TBD]	[TBD]
Program Evaluation (ACL, ALP, PCLP)	[TBD]	[TBD]	[TBD]
Growth Over 24 Months	[TBD]	[TBD]	[TBD]
Loans over \$2MM	[TBD]	[TBD]	[TBD]

Snapshot of SMART overall assessment criteria

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Solvency and Financial Condition	CDC shows strength in its cumulative net yield over the last 5 years, cash flow, profitability, reserves, and viability ratio by exceeding most benchmarks established for these ratio. No benchmark in this component was rated "Less than Acceptable"	CDC shows minimal weakness in its cumulative net yield over the last 5 years, cash flow, profitability, reserves, or viability ratio by achieving an acceptable rating for most benchmarks established for these ratio. No benchmark in this component was rated "Less than Acceptable"	CDC shows critical and crucial weakness in its cumulative net yield over the last 5 years, cash flow, profitability, reserves, or viability ratio by not meeting at least an acceptable rating in all benchmarks established for these ratio. One or more benchmarks in this component was rated "Less than Acceptable"
Management and Governance	CDC shows strength in its projected purchase rate, high risk originations, and loans in liquidation more than 3 years by exceeding most benchmarks established for these ratio. CDC also knowledgeable and experienced management with an effective organizational chart. No benchmark in this component was rated "Less than Acceptable"	CDC shows minimal weakness in its projected purchase rate, high risk originations, or loans in liquidation more than 3 years by achieving an acceptable rating for most benchmarks established for these ratio. CDC has knowledgeable management with a satisfactory organizational chart. No benchmark in this component was rated "Less than Acceptable"	CDC shows critical and crucial weakness in its projected purchase rate, high risk originations, or loans in liquidation more than 3 years by not meeting at least an acceptable rating in all benchmarks established for these ratio. CDC does not have knowledgeable management or a satisfactory organizational chart. No benchmark in this component was rated "Less than Acceptable"
Asset Quality and Servicing	CDC shows strength in its all ratio by exceeding most benchmarks established for these ratio. No benchmark in this component was rated "Less than Acceptable". CDC initiates intensive servicing as soon as payment problems are identified.	CDC shows minimal weakness in its ratio by achieving an acceptable rating for most benchmarks established for these ratio. No benchmark in this component was rated "Less than Acceptable". CDC initiates intensive servicing when payments becomes 60 past due.	CDC shows critical and crucial weakness in its ratio by not meeting at least an acceptable rating in all benchmarks established for these ratio. One or more benchmarks in this component was rated "Less than Acceptable". CDC does not initiates intensive servicing when payments becomes 60 past due.
Regulatory Compliance	CDC submits its annual report to the SBA with the required time and with no errors. Other reports are also submitted timely and accurately. CDC has an in-depth Internal Control Policy that includes an extensive Loan Classification system compliant with FFIR. CDC has highly experienced and knowledgeable staff commensurate with its operations.	CDC submits its annual report to the SBA with the required time but with some errors. Other reports are also submitted timely but with some errors. CDC has an adequate Internal Control Policy that includes a satisfactory Loan Classification system compliant with FFIR. CDC has experienced and knowledgeable staff commensurate with its operations.	CDC does not submit its annual report to the SBA with the required time or has substantial errors. Other reports are also not submitted timely and with some errors. CDC does not have an adequate Internal Control Policy that includes a satisfactory Loan Classification system compliant with FFIR. CDC does not have experienced and knowledgeable staff commensurate with its operations.
Technical Issues and Mission	CDC's use of loan agents, lender service providers, franchise lending, concentrations, etc. does not pose additional risk to the SBA	CDC's use of loan agents, lender service providers, franchise lending, concentrations, etc. may create additional risk to the SBA	CDC's use of loan agents, lender service providers, franchise lending, concentrations, etc. creates heightened risk to the SBA
Impact to CDC	Delegated authority recertified for at most 2 years. The above information will determine whether any of the above areas warrant further review. OCRM may request additional information from CDCs, such as review of loan files, policies/procedures, etc. Review may result in required corrective actions. CDCs responses to corrective actions required may impact its continued relationship with SBA. Insufficient or unacceptable response may warrant elevated supervision or enforcement.	OCRM may determine that a review of a sample of loan files is warranted; delegated authority recertified, but may be for shorter period than 2 years. Review may result in required corrective actions. CDCs responses to corrective actions required may impact its continuing relationship with SBA. Insufficient or unacceptable response may warrant elevated supervision or enforcement.	OCRM may determine that a site-visit is warranted. Delegated authority recertification denied until reason(s) for denial are overcome. Review may result in required corrective actions. CDC responses to corrective actions required may impact its continued relationship with SBA. SBA may take an enforcement action based on grounds specified in 13 CFR 120.1400, including repeated failure to correct continuing deficiencies.

ALP Renewals Change Over To OCRM

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

ALP Delegated Authority Re-Certifications Criteria and Processing

Preliminary Delegated Authority Criteria

Risk Assessment Criteria	Preferred	Acceptable	Less than Acceptable
Prior Risk-Based Review Rating	"Acceptable"	"Acceptable with Corrective Actions Required"	"Less than Acceptable with Corrective Actions Required"
504 loans approved	>60 in prior 3 years	At least 20 in prior 3 years	<20 in prior 3 years
Portfolio size	>90 active loans	At least 30 active loans	<30 active loans
CDC staff experience	At least 1 loan officer with >10 years experience in 504 loan processing and 1 loan officer with >10 years experience in 504 servicing. The same loan officer may meet both these recommendations.	At least 1 loan officer with >3 years (or 2 years if they satisfactorily complete SBA-approved processing or servicing training) experience in 504 loan processing and 1 loan officer with >3 (or 2 years if they satisfactorily complete SBA-approved processing or servicing training) years experience in 504 servicing. The same loan officer may meet both these recommendations.	No loan officers with at least 3 years (or 2 years if they satisfactorily complete SBA-approved processing or servicing training) experience in 504 loan processing or 3 (or 2 years if they satisfactorily complete SBA-approved processing or servicing training) years experience in 504 servicing
Reporting to SBA	Annual report submitted on-time with no errors	Annual report submitted on-time with minimal errors	Annual report submitted late and/or with substantial errors
Financial condition	CDC shows significant strength in its cash flow, profitability, and reserves.	CDC has adequate cash flow, profitability, and reserves to remain solvent.	CDC shows critical and crucial weakness in its cash flow, profitability, and reserves which may indicate the CDC is not longer solvent
CDC Impact	Meets well-capitalized capital requirements; current on 1502 reporting and fee payments; acceptable purchase and charge-off rate; delegated authority may be recertified up to 2 years	Meets minimum capital requirements; less than current on 1502 reporting and fee payments; less than acceptable purchase and charge-off rates; delegated authority may be recertified for less than 2 years.	Does not meet minimum capital requirements; not current on 1502 reporting and fee payments; less than acceptable purchase and charge-off rates; delegated authority may be denied until requirements are met

- ▶ Nomination requests reviewed on an ongoing basis as received
- ▶ CDCs that do not receive a risk-based review but whose delegations are expiring in a given year, will be reviewed for continued delegated authority eligibility
- ▶ Consistent with statutory and regulatory requirements, SBA will make recertification decisions at least every two years
- ▶ In determining whether to recertify CDCs, SBA will assess CDCs' continuing compliance with statutory, regulatory, and policy requirements

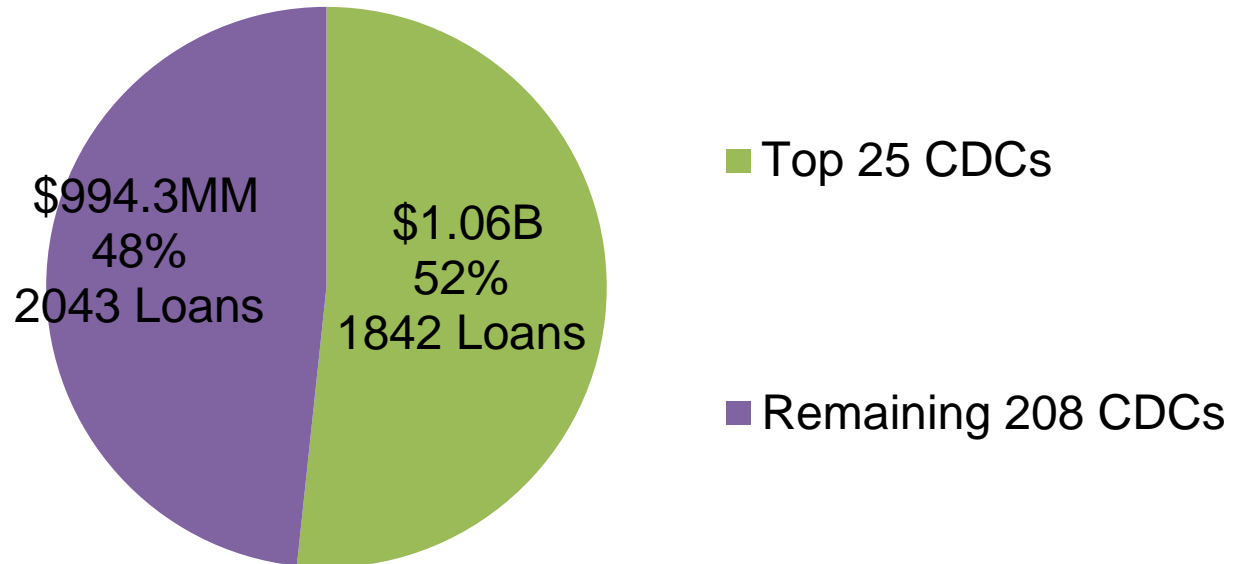
OCRM CDC Assessments

(Nomenclature)

CDCs will continue to receive:

- ▶ Review Assessments:
 - ▶ Acceptable
 - ▶ Acceptable with Corrective Action(s) Required
 - ▶ Marginally Acceptable with Corrective Action(s) Required
 - ▶ Less than Acceptable with Corrective Actions Required
- ▶ CDC Risk Rating – 1, 2, 3, 4, 5
- ▶ Peer Groups – continue as is for now
- ▶ SMART benchmarks will be categorized as:
 - ▶ Preferred
 - ▶ Acceptable
 - ▶ Less than Acceptable
- ▶ GOAL - Composite CDC Risk Grade (Target: 24 months)

Active Purchase Loans



	# 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.

SBA Paid 504 CDC Fees for Risk-Based Reviews

2011

2011 Size	Count	Work Invoiced	Travel Invoiced	Total
Medium	17	\$334,084	\$79,136	\$413,220
Large	4	\$98,880	\$28,043	\$126,923
Large Targeted	1	\$24,720	\$6,624	\$31,344
Grand Total	22	\$457,684	\$113,803	\$571,487

2012

2012 Size	Count	Work Invoiced	Travel Invoiced	Total
Small	8	\$131,376	\$23,276	\$154,652
Medium	4	\$80,964	\$13,688	\$94,652
Large	6	\$152,772	\$33,997	\$186,769
Grand Total	18	\$365,112	\$70,961	\$436,073

Discussion Topics

- ▶ Expected information from CDCs before and during reviews:
 - ▶ Functional Organizational Structure
 - ▶ Origination – Underwriting – Approval – Closing & Booking – Servicing
 - ▶ Organizational
 - ▶ People
 - ▶ Functional
 - ▶ Operations
 - ▶ Systems
 - ▶ CDC Systems (key contact)
 - ▶ Technological capabilities (key contact)
 - ▶ Lender Service Providers
 - ▶ Developmental Review Scope for CDCs (2013)
 - ▶ 20 Select Analytical Reviews, estimated 5 target Reviews, and 5 Full Reviews
 - ▶ 64 ALP delegated reviews to be completed
 - ▶ Bridge reviews contractor
 - ▶ Fuentes Fernandez & Company, PSC
 - ▶ Joseph A. Fuentes, President/CEO