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## OUR NAGGL CONFERENCE TAKE-AWAYS: WRAPPING UP SBA OVERSIGHT - HOT BUTTON ON THE HILL

As promised - and responding to requests from several lenders - here's more info about the increased D.C. oversight of SBA covered at last month's NAGGL Conference. Why the step-up? According to SBA's Office of Credit Risk Management (OCRM), 70,000 SBA loans totaling \$29 billion were booked in FY 2016, with an estimated \$3 billion dollar volume increase year-over-year. So thanks to the great job SBA lenders are doing, there's need for assurance that current oversight is commensurate with the rate of growth.

Who's looking? Here's the chain of command: As we know, the House Subcommittee on Investigations, Oversight, and Regulations oversees SBA. Moving right along, SBA oversees lenders. What's everybody looking at? Here's what we know:

- The Office of Inspector General (OIG) has been critical of SBA's guaranty purchases, especially for high dollar amounts, early defaults and construction loans.
- The OCRM tells us they're focusing on forecast purchase rates and charge-offs. As a result of criticism from the OIG, they're stepping up lender oversight.
- The National Guaranty Purchase Center (NGPC) in Herndon is looking more closely at loans with early default or those over \$500,000.

### **As a Lender, How do You Respond and Prepare? Document, Document, Document.**

Oversight begins at home. Be your own reviewer! In your day-to-day operations perform your own internal oversight to help ensure compliance before any SBA review. A few tips:

- Be sure your loan approvals, authorizations and commitment letters are mirror images.
- Comply with SBA's requirement for prudent lending. Remember, SOPs are the minimum acceptable standard. You must comply with them but also with your own internal policies which may be more conservative.
- Key: Checks and Balances. Make sure your documentation at application, closing and modification/servicing are valid and enforceable. A best practice is to have a team system of document and review prior to signing. Pesky errors are harder to fix once docs are signed and funds are out the door.
- File Retention. The Improper Payments Elimination & Recovery Act (IPERA) puts us on the hook for six years after repurchase. So don't destroy those files once repurchase and charge off are complete. We recommend having a system for tracking and storing those decisions.
- When underwriting, making a servicing action or liquidating a loan, your action memos must reference the SOP you relied on for that memo. Go a step farther. Cut and paste the SOP language into the memo or keep a copy of the relevant SOP page attached to the action memo.
- Equity is Key: You need to source it (two-months trailing statements) and verify it was used as reflected in your Project Breakdown. It's not enough to gather the info you need

for review. We recommend reviewing HUD-1's to ensure they match the Authorization and 1050 Settlement Sheets. The reviewer must initial and date the document.

- UCC Filings: To be valid, filings must have the organization's exact name which must match the Articles of Formation. To ensure enforceability, file in the state of organization, which isn't always the same as the location.

Stay tuned for eBulletins on Construction loans and the latest hot buttons - Franchises, 912s and Credit Elsewhere changes in the new SOP 50 10 (I), which becomes effective January 1, 2017. And as always, count on our [JRB Team](#) to assist you with every facet of SBA lending.

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