

## Preparing for SBA Audits .... Proactive Portfolio Management Will Help You Sail Through

***"In real life, strategy is actually very straightforward. You pick a general direction and implement like hell."***

***- Jack Welch, "Winning" 2005***

You have a great business lending strategy and aggressive goals. In fact, you've got a good program that could be great. With the SBA stepping up its audits, the quality of your files and how complete they are is essential. File maintenance is the critical piece. It doesn't work to simply close loans and put them on the shelf. The key: proactivity.

"Preparing for an SBA audit begins long before the audit is scheduled," says the SBA's Linda Rusche, Supervisory Financial Analyst, Office of Credit Risk Management. "Ongoing portfolio management will help bring about a positive result without the need for a lot of last minute actions."

The OCRM advises that lenders:

- Have current written policies and procedures for SBA loans and internal controls clearly addressing the SBA's requirements. Rusche adds that these don't need to be separate procedures as long as a lender's requirements recognize the SBA's Loan Program Requirements.
- Fully document the actions taken on individual loans on an ongoing basis. "AKA: leave a paper trail so everyone understands what's been done on each loan," says Rusche. She recommends checking every loan against the *7(a) Risk Based Lender Review File Checklist* on the OCRM website [www.sba.gov/olo](http://www.sba.gov/olo). The SBA uses this Checklist. So be proactive: Use it yourself. Mark each required item "In File" or "Missing." Then make sure you provide the "Missing" items in your files.
- Ensure that lending staff is fully trained and regularly updated on SBA requirements and procedures.
- Conduct consistent ongoing, proactive portfolio management.

Rusche emphasizes the importance of the SBA's Lender/Loan Management System in providing data lenders need to maintain proactive awareness of their portfolio's performance. The SBA published enhancements to the L/LMS on March 1, 2010, making this portal an even more valuable tool. The system has been revamped to include maximized predictive data and updated loan credit score modules.

From our perspective as consultants, we're finding most of the issues lenders face at liquidation could have been avoided with early and ongoing portfolio reviews. Here's JRB's Top 3. These are "must-have" items. If lenders don't have them, there could be monetary impact on the guarantee:

1. Evidence of injection
2. Evidence of use of proceeds
3. IRS Form 4506T Transcript

Many high volume lenders have followed procedures but allowed the details to get away from them, often putting their PLP status at risk. Brand new lenders often aren't properly trained and come up against it when the SBA reviews their portfolios. At J.R. Bruno we have decades of experience with the SBA and the expertise to conduct early portfolio reviews, advise and educate your staff -- and protect your SBA portfolio. Keep your SBA program active, avoid denials of your guarantee and negative SBA audits, and ensure your portfolio's position. Contacting us is the first step!

Visit our new website: [www.jrbrunoassoc.com](http://www.jrbrunoassoc.com)

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