Joanna Bruno
President
J. R. Bruno & Associates
2152 E Cumberland Rd
Glendora, CA 91741
626.963.1267
www.jrbrunoassoc.com
joanna@jrbrunoassoc.com

SBA's Loan and Lender Monitoring System: It's a Good Thing!
Part of Overall Risk Based Lender Oversight

Topic of the Moment: SBA's Loan and Lender Monitoring System (L/LMS). What is it? How does it work? How does it benefit lenders? For some time, lenders have asked these about this key component of the SBA's Lender Risk Based Oversight. Attendees at NAGGL's spring conference heard OCRM Director Bryan Hooper give a much-needed overview on which this article is based.

L/LMS is the Office of Credit Risk Management's (OCRM) offsite monitoring and review system. Developed in conjunction with Dun & Bradstreet, L/LMS is a database of information on individual SBA lenders and active loans that is used to analyze information using predictive (forward-looking, leading indicator) scoring models to statistically rank order loans (i.e., predict the likelihood that a loan will be purchased) and is a critical element in risk rating lenders. L/LMS contains comprehensive portfolio data on the nearly 5,000 SBA lenders nationwide (with at least one SBA 7(a) loan on the books) and 350,000 outstanding loans. The information about a lender's portfolio contained within L/LMS is available online through the Lender Information Portal (Portal), which enables any institution to proactively monitor and manage its SBA portfolio risk. The Portal provides any SBA lender with nine quarters worth of comparative data between its portfolio performance and those lenders within the same peer group i.e., lenders with similar size portfolios as defined by SBA share dollars outstanding, as well as the overall SBA 7(a) portfolio (or 504 portfolio for CDCs).

The Portal also allows lenders to review online the exact performance data that OCRM monitors. And importantly, it provides trend data so you can measure your portfolio trends, compare them against the overall portfolio, and determine if you need to take proactive steps to turn your portfolio around.

"Some lenders ask us, 'What's the Lender Portal?' When they go in, they see it's more than just numbers. It tells a story about their portfolio they find valuable and useful," says OCRM Deputy Director John White. "More than simply a monitoring system, the Portal is a way to work with lenders as a team. Every district office can pull data, and all of them have lenders using it. The more tools lenders have, the better they can build a business-lending portfolio – and do it right. The Portal is useful for everybody."

As consultants, our JRB Team likes the Portal. It's a great measuring tool and we regularly encourage our clients to use it. We often meet with a bank's top management to analyze their loan portfolio and show them how they can benefit from using the Portal. It's easy to get into a habit that earns revenue on the front end, but managing your portfolio after closing is critical to your bottom line. If you let backend responsibilities fall through – you're into a bad habit that can put your SBA guarantees at risk. In these economic times when production is down, portfolio problems are magnified.

We compare the Portal to checking our personal credit scores prior to taking action to apply for a loan. The Portal is like that – and more. Lenders see what the SBA sees. The Portal helps answer the question, "How am I doing?"

From the SBA's perspective, the L/LMS enables the agency to look at individual portfolios and trends, providing early warning indicators. The data helps identify the riskiest lenders and allows SBA to focus resources on those that might need additional monitoring. Lender Risk Ratings (from a 1 = Least Risk to a 5 = Highest Risk) are based on several factors, using external data from the Small Business Portfolio Solution (SBPS) software and internal performance data to predict the likelihood of purchases a lender will have over the next 12 months.

According to SBA, the rating components for the 7(a) lender risk rating (LRR) is:

- **The 7(a) Lender Risk Rating** =
  (y axis intercept)
  + (weighting)*(<u>Past 12-Month Purchase Rate</u>)
  + (weighting)*(<u>3-Month Change in SBPS</u>)
  + (weighting)*(<u>Problem Loan Rate</u>)
  + (weighting)*(<u>Projected Purchase Rate</u>).

  *The actual weightings are proprietary and vary by 7(a) Peer Group. (Peer Groups are determined by the outstanding SBA share, or guaranteed portion dollars.)

Any lender would be concerned about its SBA onsite review if the Portal showed a "High-Risk Rating". Yet according to the SBA, a 'less than acceptable' Risk Rating doesn't automatically trigger additional action. However, it does lead the SBA to perform additional investigative work to determine the reasons for the Risk Rating and the poor underlying portfolio performance.

Additionally, the SBA's decision to perform an onsite review isn't based on the Risk Rating or the underlying components alone. Other factors are considered. (For lenders with smaller portfolios – $10 million or less – and less than acceptable risk ratings, the SBA will typically work with them offsite, baring exceptional circumstances.) However, a lender with a less than acceptable Risk Rating is likely to be reviewed sooner than one with an acceptable Risk Rating. The bottom line: L/LMS is a key component in how the SBA views your level of risk to the SBA portfolio!

"I'm bullish on the Portal, and this is just the beginning," says John White. "The SBA is excited about the enhancements we're developing. They'll increase the Portal's value for our lenders and the SBA. **In response to lender requests, we'll provide loan level credit data in our next enhancement. And although the Lender Risk Ratings are still predictive, we're also performing a complete redevelopment of the Risk Ratings to maximize their predictive value. We're also incorporating an updated version of the loan credit score models, which will enhance the system's predictive powers. Finally we're exploring ways to provide lenders with additional information and more benefits to help them better manage their SBA portfolios."**

Take advantage of this resource. Signing on is easy. Although the login page states that the site is available to one designated user per lender, the SBA will consider lender requests for more than one user. And as part of the upcoming enhancements, the SBA will review its one-user per-lender policy. In any event, it's best to have executive management – or at least business lending department management – be the designated user.

For access to the Lender Portal, go to https://pdp.dng.com/pdpsba/pdploginasp.