J.R.Bruno & ASSOCIATES
Consultants to the Business Lending Community
SBA Specialist
OUTSOURCE COLLABORATOR Business Lending News

THE SBA's OFFICE OF CREDIT RISK MANAGEMENT: MOVING INTO THE NEXT GENERATION

From time-to-time we update you on activities key SBA departments are implementing to improve the efficiency and effectiveness of lender programs. This month: the Office of Credit Risk Management.

With an objective to create an overall culture of credit risk awareness, new OCRM Director Brent Ciurlino joined the office in January. He brings more than 25 years of executive banking and lending experience and comes to the SBA from the FDIC. Under his leadership, the OCRM is developing methods to best manage program credit risk and monitor lender performance for the mutual benefit of lenders and the SBA. Here's a brief overview of the OCRM and a snapshot of Ciurlino's strategies for the office's "Next Generation."

Overview

The OCRM conducts on-site lender reviews, assesses a variety of analytical risk indicators and analyzes SBA portfolio quality to enable the office to identify trends, better understand lender and portfolio performance, and manage credit risk through SBA's lending partners. Additionally, the OCRM conducts ongoing risk based, off-site analyses of SBA lender performance through the Loan/Lender Monitoring System, with online lender access through the Lender Portal. The OCRM updated and redeveloped the Lender Portal in 2001 and 2009 and is redeveloping it again this year. If you haven't taken advantage of this valuable proactive assessment tool, I encourage you to do so.

New Direction in Credit Risk Management

According to Ciurlino, his action plan going forward includes a new Business Model including an Annual Risk Operating Plan for OCRM, taking a portfolio approach to risk management, implementing a Supervision/Enforcement Team, reviewing technology and data usage, and implementing a Training Plan, with these priorities:

- Increase collaboration within OCA for strategic risk management
- Create a culture of credit risk awareness, whether from internal or portfolio risk,
  including the SBA's Center's risk, to external lender or contracting risk
- Redesign on-site and desk-review processes
- Leverage credit scores to target potential losses
- Account for lender behavior that creates risk
- Improve transparency and communication to lenders

Importantly, the OCRM is continually looking to refine its processes and assessment tools to more accurately analyze and monitor credit risk. In the past, the SBA used a dollar threshold plus the risk rating to trigger an accelerated risk cycle. Moving into the next generation, the OCRM is looking at portfolios in as many "slice and dice" segments possible to best identify high-risk characteristics to focus on and target lenders demonstrating those characteristics:

Legacy vs. Existing Portfolios

The OCRM's Legacy (existing) and Emerging portfolios present different risks and the office is developing new risk management processes to manage these risks appropriately.

Risk-Based Review Design

The OCRM undertook a comprehensive analysis to assess lender risk and is using the results to target lenders with high-risk characteristics for enhanced oversight. Elements of the analysis include:

- Lender Activity Stratification
- Lender Loss Analysis
- Lender Size / Magnitude of Risk
- Lender Industry Concentration Risk

Lender Risk-Rating Redevelopment: Putting $$$ Where Risks Are

- The OCRM has committed substantial funds to redeveloping Lender Risk Ratings with an eye to improving accuracy and better identifying and addressing high-risk lender performance. This is good news for lenders not demonstrating high risk: The dollars are going where the risks are. As a result, there will be less focus on lower risk lenders than in the past.

Lender FYI: Frequent 7(a) Lender Risk-Based Review Findings

The OCRM compiled this Frequent Findings list over 18-months, from October 1, 2010 through March 31, 2012. It allows lenders to best understand what items hinder the process and to focus on their internal operations so they can avoid these pitfalls:

- Insufficient loan underwriting
- 1502 reporting is deficient or contains errors; or error reports not corrected
- Lender fails to address all Loan Authorization requirements during closing
- IRS tax transcript requirements are not met prior to closing (not obtained and/or
  not reconciled with credit decision financials)
- Required equity injection not adequately verified
- Credit unavailable elsewhere not met or adequately documented in file
- Personal resources test not adequately met or adequately documented in file

- Lender fails to assess creditworthiness periodically for its SBA loans
- Lender's assessment of collateral values is not adequate or fails to meet SBA
  Loan Program Requirements
- Lender's liquidation rate markedly exceeds peer and/or portfolio averages
  (may demonstrate languishing files)

I hope this information has increased your credit risk awareness and your understanding of the OCRM. As the OCRM has stated, "Lending partners are crucial to the overall success of these programs and enable SBA executive management to make more informed decisions on program policy." As a longtime SBA Lender Service Provider, your J.R. Bruno Team is in frequent contact with OCRM staff. We can assist you in managing your SBA portfolio - and in mitigating your risk. Call JRB at 415.362.1200. Or visit www.jrbrunoassoc.com. We look forward to working with you!

Joanna

Joanna Bruno
President
J.R. Bruno & Associates
870 Market Street, Suite 462
San Francisco, CA 94102
415.362.1200
joanna@jrbrunoassoc.com

Visit us at www.jrbrunoassoc.com