

**Managing Risks in Guaranteed Loan Programs**

---

An agency that extends credit through a guaranteed loan program must take appropriate steps to minimize the risk of loss to the Federal Government. This goal can be efficiently achieved by monitoring the approved lenders and servicers, rather than monitoring the credit extension and servicing actions taken on each guaranteed loan. Accordingly, an agency should focus its efforts on assuring that only qualified lenders and servicers take actions on federally guaranteed loans, and that these qualified lenders and servicers continue to adhere to agency rules and standards concerning credit extension and loan servicing. The key components of a successfully managed guaranteed loan program are:

- C **lender eligibility**, including lender participation criteria, continuing review of a lender's eligibility to participate in the agency's guaranteed loan programs, decertification of a lender that fails to meet an agency's standards, and use of loan servicers;
- C **lender agreements**, including terms of lender participation agreements, performance standards, reporting requirements, and terms applicable to loan servicers;
- C **lender and servicer reviews**, including requirements for on-site reviews by the agency on a regular basis (annually or biennially, depending on volume and performance); and
- C **corrective actions**, including actions to be taken when a lender or servicer is not in compliance with program requirements.

Agencies responsible for the management of guaranteed lending programs must comply with the applicable provisions of the Office of Management and Budget (OMB) Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." These provisions are set out in detail below. The OMB Circular No. A-129 is available in its entirety on line at [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb) or [www.fms.treas.gov](http://www.fms.treas.gov).

---

## Management of Guaranteed Lenders and Servicers

---

---

### Lender Eligibility

---

**Participation Criteria.** Federal credit granting agencies shall establish and publish in the *Federal Register* specific eligibility criteria for **lender participation** in Federal guaranteed loan programs. These criteria should include:

- C requirements that the lender is not currently debarred/suspended from participation in a Government contract or delinquent on a Government debt;
- C qualification requirements for principal officers and staff of the lender;
- C fidelity/surety bonding and/or errors and omissions insurance with the Federal Government as loss payee, where appropriate, for new or non-regulated lenders with questionable performance under Federal guarantee programs; and
- C financial and capital requirements for lenders not regulated by a Federal financial institution regulatory agency, including minimum net worth requirements based on business volume.

**Review of Lender Eligibility.** Agencies shall review and document a lender's eligibility for continued participation in a guaranteed loan program at least every two years. Ideally, these reviews should be conducted in conjunction with on-site reviews of lender operations or other required reviews, such as renewal of a lender agreement ("Lender Agreements," see below). Lenders not meeting standards for continued participation should be decertified. In addition to the participation criteria above, agencies should consider lender performance as a critical factor in determining continued eligibility for participation.

**Fees.** When authorized and appropriate for such purposes, agencies should assess non-refundable fees to defray the costs of determining and reviewing lender eligibility.

## Management of Guaranteed Lenders and Servicers

---

**Decertification.** Agencies should establish specific procedures to decertify lenders or take other appropriate action any time there is:

- C significant and/or continuing non-conformance with agency standards; and/or
- C failure to meet financial and capital requirements or other eligibility criteria.

Agency procedures should define the process and establish timetables by which decertified lenders can apply for reinstatement of eligibility for Federal guaranteed loan programs.

**Loan Servicers.** Lenders transferring and/or assigning the right to service guaranteed loans to a loan servicer should use only servicers meeting applicable standards set by the Federal credit granting agency. Where appropriate, agencies may adopt standards for loan servicers established by a Government Sponsored Enterprise (GSE) or a similar organization (e.g., Government National Mortgage Association for single family mortgages) and/or may authorize lenders to use servicers that have been approved by a GSE or similar organization.

## Lender Agreements

---

Agencies should enter into written agreements with lenders that have been determined to be eligible for participation in a guaranteed loan program. These agreements should incorporate general participation requirements, performance standards and other applicable requirements of OMB Circular No. A-129.

Agencies are encouraged, where not prohibited by authorizing legislation, to set a fixed duration for the agreement to ensure a formal review of the lender eligibility for continued participation in the program.

## **Management of Guaranteed Lenders and Servicers**

---

### **General Participation Requirements**

---

Lender participation requirements include:

- C requirements for lender eligibility, including participation criteria, eligibility reviews, fees, and decertification (see Lender Eligibility, Participation Criteria, above);
- C agency and lender responsibilities for sharing the risk of loan defaults (see Chapter 2, Budget and Legislative Policy for Credit Programs, Financial Standards) and, where feasible;
- C maximum delinquency, default and claims rates for lenders, taking into account individual program characteristics.

### **Performance Standards**

---

Agencies should include in their lender agreements due diligence requirements for originating, servicing, and collecting loans. This may be accomplished by referencing agency regulations or guidelines. Examples of due diligence standards include collection procedures for past due accounts, delinquent debtor counseling procedures and litigation to enforce loan contracts.

Agencies should ensure through the claims review process, that lenders have met these standards prior to making a claim payment. Agencies should reduce claim amounts or reject claims for lender non-performance.

## Management of Guaranteed Lenders and Servicers

---

### Reporting Requirements

---

Agencies should require certain data to monitor the health of their guaranteed loan portfolios, track and evaluate lender performance and satisfy OMB, the Department of the Treasury, and other reporting requirements. Examples of the data which agencies must maintain include:

- C **activity indicators.** The number and amount of outstanding guaranteed loans at the beginning and end of the reporting period and the agency share of risk; number and amount of guaranteed loans made during the reporting period; and number and amount of the guaranteed loans terminated during the period; and
  
- C **status indicators.** A schedule showing the number and amount of past due loans by age of the delinquency, and the number and amount of loans in foreclosure or liquidation (when the lender is responsible for such activities).

Agencies may have several sources for such data, but some or all of the information may best be obtained from lenders and servicers. Lender agreements should require lenders to report necessary information on a quarterly basis (or other reporting period based on the level of lending and payment activity).

### Loan Servicers

---

Lender agreements must specify that loan servicers meet applicable participation requirements and performance standards. The agreement should also specify that servicers acquiring loans must provide any information necessary for the lender to comply with reporting requirements to the agency. Servicers may not resell loans except to qualified servicers.

## Management of Guaranteed Lenders and Servicers

---

### Lender and Servicer Reviews

---

To evaluate and enforce lender and servicer performance, agencies should conduct on-site reviews on a biennial basis, except as noted below. Agencies should summarize review findings in written reports with recommended corrective actions and submit them to agency review boards. (See Chapter 1 - Introduction, Responsibilities of Departments and Agencies.)

Agencies should conduct annual on-site reviews of all lenders and servicers with substantial loan volume or whose:

- C financial performance measures indicate a deterioration in their guaranteed loan portfolio;
- C portfolio has a high level of defaults for guaranteed loans less than one year old;
- C overall default rates rise above acceptable levels; and/or
- C poor performance results in monetary penalties imposed on the lender or servicer or an abnormally high number of reduced or rejected claims.

Agencies are encouraged to develop a lender/servicer classification system which assigns a risk rating based on the above factors. This risk rating can be used to establish priorities for on-site reviews and monitor the effectiveness of required corrective actions.

Reviews should be conducted by guarantor agency program compliance staff, Inspector General staff, and/or independent auditors. Where possible, agencies with similar programs should coordinate their reviews to minimize the burden on lenders/servicers and maximize the use of scarce resources. Agencies should also utilize the monitoring efforts of GSEs and similar organizations for guaranteed loans that have been “pooled.”

## **Management of Guaranteed Lenders and Servicers**

---

### **Corrective Actions**

---

If a review indicates that the lender/servicer is not in conformance with all program requirements, agencies should determine the seriousness of the problem. For minor non-compliance, agencies and the lender or servicer should agree on corrective actions. For more serious and frequent offenses, agencies should establish penalties. Penalties may include loss of guarantees, reprimands, probation, suspension and decertification.

For further guidance or information, agencies should contact the Agency Enterprise Solutions Division at 202-874-6875.