NEWS RELEASE

PRESS OFFICE

Release Date: November 13, 2007
Advisory Number: 07-79

Contact: Christine Mangi (202) 205-6948
Internet Address: www.sba.gov/news/

Background on SBA's Lender Oversight Program

HISTORY

The SBA-backed lending is a $66.7 billion dollar industry with nearly 5,000 lenders and Certified Development Companies (CDCs). About 650 lenders are in its Preferred Lender Program (PLP). As such, SBA takes its lender oversight responsibility very seriously. There are a variety of ways in which it performs this duty.

To mitigate losses from a lender's under-performing loan portfolio, SBA has the authority to reduce the time between renewals of delegated lending authority. It has the ability to conduct frequent on-site reviews, work with the lender's management to resolve portfolio deficiencies, and establish a corrective action plan that can include quarterly or even monthly reporting. In addition, a wide range of data is collected that provides SBA with continual updates on the lender's progress. These practices allow lenders to improve loan portfolio performance while continuing to serve the small business community.

The challenge SBA faces when deciding what corrective measures to take against under-performing lenders is to balance implementation of appropriate safeguards to protect taxpayers without imposing excessive regulations that will not unnecessarily impede the flow of capital to underserved small businesses through the program.

LENDER OVERSIGHT REFORMS

In 2003, a Government Accountability Office (GAO) report noted that SBA made progress in developing its lender oversight program, but more effective oversight was necessary, particularly of preferred lenders. Specifically, SBA needed to improve access to lenders' decisions on borrowers' creditworthiness and eligibility, and the impact of lenders' decisions regarding risk posed to SBA.

As a result of the GAO report, SBA has taken several steps to improve lender oversight. New reforms include:

- Implementing a comprehensive off-site monitoring program featuring sophisticated risk rating measurements developed by a nationally-recognized provider of commercial credit scoring solutions;
- Instituting a risk-based on-site review/examination program that includes qualitative analysis of a lender's credit administration, SBA operations management, and loan portfolio performance data;
- Drafting proposed lender oversight and enforcement regulations; and
- Developing a coordinated and more independent supervision and enforcement process.

(---MORE---)

The agency has submitted a proposed rule for public comment that would implement these steps in federal regulations. This rule also further establishes the roles and responsibilities of the Office of Credit Risk Management. In addition, it applies more comprehensive oversight regulations to 7(a) lenders, CDCs and Microloan Intermediaries that currently have limited or no regulatory oversight by other federal regulatory agencies.

In addition to general oversight responsibilities, SBA is considering how to reduce the risk of fraud in its loan programs. The agency is cooperating with its lending partners to ensure they have appropriate policies and procedures to identify and prevent fraudulent activity. It is also working to identify irregularities in lenders' portfolios and to bring them to the attention of SBA's Office of Inspector General (OIG). SBA relies on SBA's OIG and the Justice Department's experts in fraud to investigate and prosecute fraud related activities. While processes and policies are in place to deal with these issues, SBA is considering using other analytical tools to facilitate fraud detection.

LENDER OVERSIGHT FEES

SBA is sensitive to the regulatory burdens placed on businesses and tries to minimize fees as much as possible. However, these fees allow SBA to perform on-site and off-site risk management on lenders and their 7(a) loan portfolios in order to protect taxpayers. Since SBA is the only regulator of Small Business Lending Companies, there are no other government safeguards or regulatory burdens for these lenders. For financial institutions regulated by banking regulators, SBA's fees are minimal compared to fees charged by other banking examiners. In fact, many lenders pay no fee, depending on the size of their portfolio.

SBA has made significant progress to improve and increase oversight on its guaranteed loan portfolio. That oversight has enhanced SBA's portfolio strength, which has reduced costs to borrowers and increased the agency's ability to reach small businesses. SBA looks forward to bettering its lender oversight program and assisting its lenders and the nation's small businesses.

# # #