U.S. Small Business Administration

SBA

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News Release

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

How is SBA Improving Lender Oversight And Maximizing Efficiency of Lending Programs?

1. **SBA is building on improvements made to its lender oversight practices.**

   The agency has taken a number of steps to ensure strong lender oversight. It has enhanced: on-site reviews and off-site monitoring of lenders; reviews of lender delegated authority applications; and its program requiring lenders to take corrective actions to address compliance issues or operational weaknesses identified by SBA.

2. **SBA is taking action to protect the agency from potential fraud and is exploring new ways to improve fraud detection.**

   While SBA recognizes the importance of fraud detection, it is the lender that has the primary responsibility for fraud prevention. This is because they have the primary, usually exclusive relationship with the borrower.

   As part of on-site reviews, SBA's Office of Credit Risk Management (OCRM) checks to ensure that lenders have adequate internal controls to help detect and counter potential fraud (OCRM's goal of reviewing the largest 450 lenders over a two-year cycle ensures that internal controls will be regularly evaluated for lenders that hold almost 85 percent of all 7(a) and 504 loans).

   OCRM is also exploring additional opportunities that might be leveraged to identify suspicious lending patterns that may be indicative of fraud such as examining data anomalies, mining third party databases, random sampling loans for further review, and identifying and sharing fraud detection best practices.

3. **SBA has developed a lender monitoring and risk management system that has highly predictive Lender Risk Ratings and has been recognized as such by SBA's auditors.**

   To monitor lender performance, the SBA utilizes Dun & Bradstreet and Fair Issac, nationally recognized leaders in credit modeling and the use of portfolio analytics for predictive performance modeling. The General Accountability Office (GAO) and SBA's Office of Inspector General (OIG) have both noted SBA as conforming to private sector industry best practices for portfolio and risk management.

   GAO states, "The loan monitoring service SBA obtained under contract from Dun & Bradstreet includes an infrastructure that appears to be on par with best practices, including a strong management information system, quality data and human capital."

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OIG states, "The Dun & Bradstreet service provides SBA with the capability to conduct the type of monitoring and analyses typical among major lenders and recommended by financial regulators."

4. **SBA has ramped up its on-site review of lenders while instituting only limited fees that are primarily designated to lenders deriving the most benefit from these programs.**

Lender reviews are a critical part of SBA's regulatory oversight strategy. The lender review fees, which were proposed through a public notice and comment process, allow SBA to effectively monitor more lenders. SBA only received 56 comments from the nearly 5,000 lenders in the 7(a) lender community.

In addition, the fees have been tailored to minimize the impact throughout the agency's lender community. Oversight fees are only being billed for direct on-site and off-site contractor costs for oversight and reviews. More than 80 percent of all lenders pay no fee and more than 92 percent of lenders pay less than $1,000 in support of oversight efforts.

5. **SBA has maintained independence of the oversight function while ensuring good communication between the agency's credit program, processing centers and lender monitoring functions.**

In October 2004, SBA created the Lender Oversight Committee (LOC), which plays a critical role in the oversight and enforcement process and is comprised of a majority of members outside of the agency's Office of Capital Access. The following year, SBA delegated additional oversight responsibilities to OCRM and the LOC.

OCRM has worked diligently to ensure effective communication between oversight of lenders, and the program policy and lender relation functions.

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