APPENDIX 30
LOAN POLICY AND PROGRAM OVERSIGHT GUIDE FOR LENDER REVIEWS

Loan Policy and Program Oversight Guide for Lender Reviews

Policy and Program Oversight Guide for Lender Reviews

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Overview

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Overview

I. **IMPORTANT NOTICE**: This Guide represents a new method of Policy and Program Oversight of SBA's lending partners. It is very important to read the entire Guide. In most cases, questions that may arise in the Overview or early in the Guide are answered later in the Guide.

II. **Background**. SBA is reshaping its role as a partner in the growth and development of small businesses. The Agency is shifting its focus toward a more complete understanding of its lender population and the operating characteristics that these lenders exhibit. Individual lender assessments of SBA loan payment performance benchmarks, along with SBA regulatory compliance reviews, are combined to give a comprehensive view of a lender's commitment to small business lending with the SBA. The goal is to enhance the tools used in promoting relationship management with participant lenders. As part of the initiative for SBA becoming a "21st century leading edge financial institution," the Loan Programs Division has designed and is ready to implement the first component of this new system of oversight that will take SBA to the forefront of governmental program management.

III. **Implementation**. This new oversight system will be implemented in fiscal year 2000 as a lender oversight system for all 7(a) and 504 delivery methods. The system may be modified subsequently as SBA develops greater familiarity with its effectiveness.

IV. **General Concept.** There are four primary concepts that have driven the development of this process.

A. **The Review Determination Will Be Based on Performance**. The Office of Capital Access (CA) has formed a Risk Management Committee responsible for the construction and monitoring of lender performance benchmarks. These performance benchmarks have been created for 504, LowDoc, and 7(a), and will be used by the field to prioritize their reviews.

B. **The Review Will Be Policy Based**. Portfolio performance via the benchmarks will determine the frequency and priority of reviews and also provide the basis for unilateral or Headquarters-approved waivers. Case files will generally be reviewed for policy compliance, lender controls, and credit analysis.

C. **Lenders Will Receive Only One Review**. Under the current system, lenders may be subject to multiple reviews due to participation in different delivery systems (PLP, Regular 7(a), and LowDoc, for example). This hinders the lender's operations and places a strain on SBA's resources. The new oversight system mandates that a lender with generally moderate loan activity will receive only one review per 3-year cycle unless they are a PLP/PCLP lender. (PLP/PCLP lenders are required to be reviewed every year.)

D. **Lender Review Level**. Lenders will be reviewed at their corporate headquarters or their processing center, if applicable. The field office that covers the location of the lender's headquarters or processing center is responsible for the review.

E. **The Review Process Will Be the Same for Everyone.** The only differences will be in the elements that apply to each loan reviewed and the relevant SOP citations. Elements will be added or removed by the Office of Financial Assistance (OFA) as it develops an experience base with this review process.

V. **Outline of the Lender Review Process**.

A. **Timeframe**. Each field office will review its lenders that demonstrate moderate loan volume within a 3-year cycle beginning in the Year 2000.

B. **Lender Review Selection**. By the Intranet, field offices will be provided data for each program. Any lender who only exceeds zero or one of the five benchmarks must be reviewed in that year. Beyond that, field offices must review lenders based on a priority system established by the number of benchmarks a lender falls below.

C. **Unilateral Authority/Waivers**. In the last year of the review cycle (since the field office has 3 years to complete their reviews), the field office will be granted unilateral authority to waive review of lenders that exceed the requirements of 2 or more benchmarks and fall below specified portfolio size standards. This should ensure that the lenders that pose the greatest risk are the lenders that get reviewed.

D. **Elements**. The elements for each loan reviewed have been designed to improve objective analysis by ensuring a "YES" or "NO" answer. This will enable the review to be scored objectively and the results kept in a database system for further analysis. The questions have also been designed to be program-generic to the extent possible, allowing use of the same set of elements for every review done in a given year. A listing of the elements can be found in Attachment D of the Lender Review Guide.

In addition, an Oversight section is included for you to use in reviewing the lender's overall loan processing, servicing, and liquidation practices. These elements are not reviewed for each loan file.

> Example: "Did the lender document its process for review and error correction on the Loan Status Reports?"

E. **Exit Interviews**. Review teams will discuss the lender's score and the results for given questions, but will not discuss corrective actions. Corrective actions may only be addressed in writing as part of the written Lender Review Report.

F. **Lender Review Report**. The written report must be completed within three weeks of the review and is limited to five pages in length. It is in this report that any corrective actions are discussed. This report is submitted on paper to the lender and via e-mail to Headquarters (HQ).

G. **Best Practices/Excellence in SBA Lending Awards**. Lenders that have procedures or policies that excel may be nominated by the review team for a "Best Practices" award from the Loan Programs Division. Lenders that pass all five benchmarks and are found to be "Substantially in Compliance" will be awarded an "Excellence in SBA Lending Award."

H. **Corrective/Immediate Action Periods.** If required, lenders must submit action plans to their field office that are to be implemented within 90 days, or 30 days if SBA is at substantial risk. The field office follows-up at the end of the period to ensure that the lender has put the systems in place that are described in its action plan.

I. **The Process Is Designed to Be Paperless.** While the process may be completed without the assistance of a computer, the process is designed to be paperless. As reviews are being conducted, the review teams simply select "YES" or "NO" for a list of questions on each loan reviewed. These answers are automatically scored and summarized on the automated form. The field must comment on any "NO" answers and then must comment on the summary page for any question where the loan review did not reach a score of 80 percent. The final report generated by the review team must not exceed 5 pages and must be bulleted and to the point. No paper is required. The review report is e-mailed to a designated mailbox at HQ.

Loan Policy and Program Oversight Guide for Lender Reviews

Review Guide

I. Introduction.

NOTE: ***This Guide represents a new method of Policy and Program Oversight of SBA's lending partners. It is very important to read the entire Guide. In most cases, questions that arise early in the Guide are answered later in the Guide***.

A. **Background**. In its five year Strategic Plan of September 1997, SBA proposed a new direction by outlining a modernization plan with specific goals to help the SBA better serve small businesses. SBA is to become a "21st century leading edge financial institution that provides small businesses in need with adequate access to capital and financing, while utilizing taxpayer dollars in the most efficient manner possible." SBA's goals require the most effective and efficient use of existing resources and technologies in order to:

1. Increase opportunities for small business by improving access to capital and credit;
2. Transform the SBA into a 21st century leading edge financial institution through:
   - Implementation of an effective oversight function of internal and external operations;
   - More effective uses of technology;
   - More effective means of identification and reduction of risk; and
   - A more focused service offering to the small business customer.

In order to implement the modernization plan, the SBA is making a substantial investment in the development of improved processes and systems.

B. **Declining Personnel Levels**. In addition to the shift in the SBA's direction, the organization is experiencing another internal shift. Personnel levels have decreased and SBA is attempting to "do more with less." This reduction has been complicated by a growth spurt of 94 percent in the SBA portfolio. The SBA has attempted to meet these demands by adapting its current programs and procedures. These adaptations have allowed the SBA to rely more on the program lenders for operational support in lieu of increasing staff levels. However, the adaptations have also increased the need for an effective lender oversight function within the SBA.

C. **Practical Application**. As a first step in the process of re-engineering SBA's oversight systems, a new loan, lender, and field oversight system is under development. The system will be fully implemented in FY 2000, however, it should be available for viewing late in FY 1999. The remainder of this guide outlines this lender oversight system.

II. Lenders, Review Cycle, Loan Selection, and Waivers.

A. **Participating Programs**. This new oversight system and review process applies to and replaces any current on-site review processes for lenders participating in the following 7(a) and 504 programs (except for CDC and SBLC reviews):

1. Regular 7(a);
2. CLP 7(a);
3. PLP 7(a);
4. SBA Express;
5. LowDoc 7(a);
6. Regular 504;
7. ALP 504; and
8. PCLP 504.

CLP and ALP lenders will receive the same review as their regular 7(a) and 504 counterparts. PCLP 504 lenders will receive the PLP review (except it will be conducted by the field office).

Current on-site program review processes in place in the form of guides, Notices, and SOPs are all replaced with this new procedure.

The PLP review team will continue to review the PLP lenders. The field offices will review all other lenders. If a PLP lender also participates in other SBA lending programs, the PLP review team will contact the field office responsible for the lender's headquarters operations and ensure that personnel from the field office are made available to conduct the non-PLP portion of the review. This field office will solicit comments from other affected field offices where the lender has non-PLP loan activity. The PLP review team will be responsible for drawing a representative sample of non-PLP loan activity across all field office areas where the lender's loans have originated. Field offices must provide personnel upon request. In these cases, the loan review will be scored on one form and one report generated by the PLP review team. **A PLP/non-PLP coordinated review will take far less time than two individual reviews**.

B. **Overlapping Reviews**. Lenders will be selected based upon benchmarks established for their programs. These benchmarks will not reflect a determination of acceptability; they will simply provide SBA with a means of determining which lenders get reviewed.

In the past, lenders have received multiple reviews in a year. Effective with the issuance of this guide, the review process is program-generic. **One review will now cover all lender programs**.

C. **Review Cycle and Lender Review Level Determinations.**

1. **Review Cycle**. For each field office, there will be a 3-year cycle during which their lenders must be reviewed. All lenders, including those who use centralized processing or servicing and whose offices lie within a field office's area of authority are likely to be reviewed at least once during this period.

   Fiscal year 2000 is the initial year of the first 3-year cycle under this approach.

2. **Lender Selection by Field Office**. Deciding which field office conducts a particular lender review has become increasingly more difficult. Multi-state lending combined with technological advances in commercial lending processes have brought about issues previously unheard of when lenders performed all functions at one location. To adequately address these issues, OFA has decided that lenders need only be reviewed at their centralized processing or servicing centers or at corporate headquarters. (see centralized processing center examples later in this section). Multi-branch lenders that extend the SBA lending decision to each branch will be evaluated at bank headquarters, and will be responsible for ensuring that the branches submit the required loan files to bank headquarters in time for the review. HQ is aware that there may be situations where the determination of where the lender is to be reviewed may be very difficult. Field offices must contact SBA's Loan Programs Division (in OFA) in cases where the determination cannot be clearly made. (Reminder -- see "Unilateral Waivers" section for details on waivers that field offices may grant without HQ approval.)

   The field office that covers the location of the lender's corporate headquarters or processing center is the primary field office responsible for conducting the review of the lender. Often times, a lender will operate in more than one field office area. In these instances, the primary field office, in order to identify issues of immediate concern, will solicit comments from all other field offices where the lender operates. The primary field office will also ensure that in the course of selecting loan files for review the sample will provide a proper representation of activity in other affected field office areas. The Office of Field Operations (OFO) may also allow a coordinated review between field offices in such cases.

   If a lender has a centralized processing and servicing center in one location, only one review of its centralized processing and servicing center is required. The center must be treated as one lender and receive one review, subject to the policies outlined in this guide.

If a lender has centralized processing and centralized servicing centers in different locations, then only the processing center must be reviewed, provided that the proper files and requested documentation are provided from the servicing center to the processing center for the review.

Example 1: ABC Bank has branches throughout California, but their loans are processed centrally in San Diego. The San Diego District Office is therefore responsible for the review of the ABC Bank processing center. The remaining offices of ABC Bank need not get a review, provided they do not directly process or service SBA loans.

Example 2: ABC Bank's branches are all independent, process loans, and make the lending decision at the branch level. Since the decision process is at the branch level, each individual branch must be included in the review process. The field office that covers the area where ABC is headquartered is responsible for conducting the review of the branch. Loan files from branch locations should be included in the sample drawn for review at ABC's headquarters office where the review will take place. (See "Unilateral Waivers" section for field authority to waive reviews of some small lenders.)

Additional questions regarding the organization level at which a lender is reviewed should be directed to OFA. Questions regarding the staffing of review teams should be directed to OFO. HQ will continue its work on developing a formal, systematic approach that addresses the more complex lender organization structures.

D. **Loan Selection**. The number of loans that will be reviewed is equal to 20 percent of the loan approval volume for the lender (all locations) during the previous complete fiscal year. The maximum number of loans that may be reviewed is 50, except in cases where the lender participates in multiple programs. In these cases, the field office or review team must select an additional 5-10 loans from each program to supplement the existing sample.

The minimum number of loans that must be reviewed is 5 (for PLP the minimum remains 1 for 1999). Once the number of loans to be reviewed has been determined, the specific sample must be generated according to the following schedule**.** (If the lender will be reviewed for more than one loan program, the additional 5-10 loans for that program must also be distributed according to this schedule – see examples later in this section.)

75 percent of the loans reviewed must be approvals from the previous complete fiscal year.

20 percent of the loans reviewed must be loans currently in liquidation (approved in any year, but not charged-off).

5 percent of the loans reviewed must be in active servicing (approved in any year, but not in liquidation).

There must always be at least 1 loan approval, 1 loan in liquidation and 1 loan in servicing in the review sample. In cases where there are few loans to review, the above percentages may be made to vary to ensure that at least one type of each is included. However, if the lender does not have any loans in a given category, the sample size may be reduced by that amount. (If you were going to review 10 loans and there are no loans in liquidation, you may reduce the required sample to 9.)

Example 1:

ABC Bank had a total of 400 approvals in 1998. Since 20 percent of 400 is 80, the sample size defaults to the maximum of 50. One hundred of the 400 loans were LowDoc loans, the rest were PLP loans. Their sample would be structured in the following way:

PLP
75 percent of 50 = 37 loan approvals from previous fiscal year to review
20 percent of 50 = 10 loans in liquidation to review
5 percent of 50 = 3 loans in servicing to review

Since the lender is a LowDoc lender with substantial volume, the field office/review team selects 10 LowDoc loans for review.

LowDoc
75 percent of 10 = 7 loan approvals from previous fiscal year to review
20 percent of 10 = 2 loans in liquidation to review
5 percent of 10 = 1 loan in servicing to review

Example 2:

ABC Bank had a total of 400 approvals in 1998. Since 20 percent of 400 is 80, the sample size defaults to the maximum of 50. Fifty of the 400 loans were LowDoc loans, 50 were regular 7(a) loans, and the rest were PLP loans. Their sample would be structured in the following way:

PLP
75 percent of 50 = 37 loan approvals from previous fiscal year to review
20 percent of 50 = 10 loans in liquidation to review
5 percent of 50 = 3 loans in servicing to review

Since the lender is a LowDoc lender with substantial volume, the field office/review team selects 10 LowDoc loans for review.

LowDoc
75 percent of 10 = 7 loan approvals from previous fiscal year to review
20 percent of 10 = 2 loans in liquidation to review
5 percent of 10 = 1 loan in servicing to review

Since the lender is a regular 7(a) lender with substantial volume, the field office/review team selects ten regular 7(a) loans for review.

7(a)
75 percent of 10 = 7 loan approvals from previous fiscal year to review
20 percent of 10 = 2 loans in liquidation to review
5 percent of 10 = 1 loan in servicing to review

Example 3:

ABC Bank is an independent bank and regular 7(a) lender. They had 20 loans approved the previous complete fiscal year. They are not eligible for waiver since they fell below all of the benchmarks. Their sample would be constructed in the following way:

20 percent of 20 is 4. Since the minimum number of loans that can be reviewed is 5, 5 loans are selected.

7(a)
75 percent of 5 = 3 loan approvals from previous fiscal year to review
20 percent of 5 = 1 loan in liquidation to review
5 percent of 5 = 1 loan in servicing to review

If, during the course of the review, responses to the questions make it necessary to review additional loan files for a particular problem, the review team may do so. There are two provisions to this rule:

1) The additional loans reviewed for the item of concern are NOT included in the score of the lender (i.e., they are not entered into the spreadsheet); and
2) The concern that prompted the review of additional files must be described in the final report on the lender.

E. **Random Sampling**. Microsoft Excel and Access, or even SBA's internal database systems, can be used to create random samples. The simplest way to generate samples is to print out or display the lender's loan numbers generated during the previous complete fiscal year. Once the loan numbers are printed/displayed, simply pick a random number (say from 1 to 10) and select every nth loan. Make sure that you have sorted by a factor other than loan number to ensure randomness. The same holds true when selecting loans in servicing or liquidation except that the loans that you select from in these cases need not be limited to those approved in the previous complete fiscal year.

F. **Review Scheduling Priority**. Field offices must plan their review schedules according to the following priority system.

1. Lenders that exceed benchmark performance in only zero or one of the five benchmarks. For ANY LENDER into this category a review is required, regardless of the date of the previous review. Even if a lender had received a review the prior year, there must be another review if the lender falls in this category.
2. Lenders that exceed benchmark performance in only two of the five benchmarks.
3. Lenders that exceed benchmark performance in only three of the five benchmarks.
4. Lenders that exceed benchmark performance in only four of the five benchmarks.
5. Lenders that exceed benchmark performance in all five benchmarks.

The benchmarks and the rating calculations are described in detail in Section III, "Review Selection Criteria."

Again, any lender from any program MUST be reviewed each year that it exceeds benchmark performance in only zero or one categories. By statutory requirement, PLP lenders must be reviewed every year regardless of their performance. As the PCLP program is a 504 pilot program modeled after the PLP program, PCLP lenders also must be reviewed annually.

Field offices are required to perform a minimum of six reviews per quarter until the required reviews are completed for any given year in the review cycle. A field office with a larger number of lenders may need to perform more than six reviews per quarter.

G. **Field Mandated Reviews**. **Field offices or HQ may choose to mandate a review for any lender under its local jurisdiction at any time regardless of the lender's performance according to the benchmarks**. These reviews, however, must be conducted in the manner set forth in this guide. If a field office has concerns about a lender outside its jurisdiction, OFO will make the determination regarding the review. (See chapter II, paragraph (C)(2).)

H. **Unilateral Waivers**. In general, lenders with low to moderate loan activity are likely to be reviewed at least once in a 3-year review cycle. Field offices, however may grant a unilateral waiver (that is, a waiver that does not require

Associate Administrator for Financial Assistance (AA/FA) or designee approval) if the field office is in the last year of its review cycle and the lender is a NON-PLP/PCLP LENDER with 5 or less loans in its portfolio.

Otherwise, for a unilateral waiver, the lender must meet both of the following conditions:

1. The field office must be in the last year of its review cycle; AND
2. The lender meets or exceeds benchmark performance in at least two of the benchmarks (as described in Chapter III); AND

At least one of the following conditions:

3. The lender has 10 or fewer loans in its portfolio; or
4. The lender has 20 or fewer loans in its portfolio and has not had a loan approved in 2 years; or
5. The lender's portfolio of funded loans totals less than $1.5 million for 7(a) and $3.5 million for 504 (regardless of the number of loans).

Items 3, 4, and 5 can be considered as mutually exclusive. In other words, for the field office to grant a unilateral waiver the lender must meet conditions 1 and 2, AND ONE of conditions 3, 4, or 5.

Unilateral waivers must be prepared by the Assistant District Director for Economic Development (ADD/ED) (or equivalent) and submitted to HQ via e-mail. Unilateral waivers must include the FIRS number(s) of the lender receiving the waiver and the lender's benchmark scores to be considered valid. E-mail waivers to Lender.Oversight@sba.gov.

Example 1: The field office is in the final year of its review cycle, and aside from 15 mandatory lender reviews because of performance, it has 10 lenders to review for a total of 25 lenders. Of the 10 lenders that do not require mandatory review, each is within benchmark performance levels in 4 of the 5 criteria. They each have been doing SBA lending for 4 years, have 18 loans in their portfolio, have had 0 approvals in 2 years and have portfolios of $3.0 million each. They can all be waived since they all meet conditions 1, 2, and 3.

Example 2: The field office is in the last year of its review cycle. It has 3 lenders with 10 loans in their portfolios each that meet all 5 of the performance benchmarks. The field office must complete a total of 15 lender reviews (including the 3 lenders with 10 loans each). The field office may choose to unilaterally waive the 3 lenders with 10 loans each if time does not allow for the completion of a review for the lenders.

Example 3: The field office is in the last year of its review cycle. It has to complete 25 lender reviews, including 2 reviews of lenders with 14 loans in their portfolios and no approvals the past 2 years, and 2 reviews of lenders with portfolios of $1.4 million. All the lenders mentioned exceeded benchmark performance in all 5 categories. Since the field office is in the final year of its review cycle it may waive the reviews for the 2 lenders with 14 loans and no approvals in the past 2 years and the 2 lenders with portfolios of $1.4 million.

Example 4: The field office is in the second year of its review cycle. It may not waive ANY reviews.

I. **Other Waivers**. In the third year of the review cycle, field offices may **request** waivers for any lender that meets or exceeds benchmark performance in at least 3 of the 5 benchmarks as set forth in section III. These waivers require the approval of the AA/FA or designee. Only in extreme cases will waivers for the top 25 producing lenders for any loan program be granted. No waiver requests will be accepted for PCLP CDCs for whom an annual review is mandatory.

Waiver requests must be signed by the ADD/ED (or equivalent) and submitted to Headquarters **via fax or regular mail by no later than June 30th of the third year of the review cycle.** Waiver requests must include the FIRS number(s) and benchmark scores of the lender for which the waiver is requested. Fax waivers to (202)-205-7722. The AA/FA, or designee, must render decisions within 30 days of the June 30 deadline.

Example: The Denver District Office is in the first year of its review cycle, has 40 lenders, and has already reviewed all 10 required lenders. The Office believes that it can do another 10 lenders and have submitted a request for waiver for the other 20 lenders.

The request will be declined. Since they are in the first year of the review cycle, they have 2 years to complete the rest of their reviews.

Example: The Denver District Office is in the last year of its review cycle, has 40 lenders, and has already reviewed all 10 required lenders. The Office believes that it can do another 20 and has submitted a request for waiver for the other 10 lenders.

The request may be approved by the AA/FA or designee. Since they are in the last year of the review cycle, they only have 1 year to complete the rest of their reviews. Therefore, HQ would consider their request for waiver.

III. Review Selection Criteria.

Field offices have been provided with a new information system. This system allows field offices to determine (based strictly on the definitions provided) when a 7(a) lender requires a review. For the 504 program, field offices have been provided with a spreadsheet that includes all of the completed calculations.

To allow for objective review determinations, the new information system employs benchmarks of performance in different areas. If the lender falls below the required benchmark performance level, the benchmark is "triggered."

Different benchmarks have been established for the 7(a) and 504 programs. The expected performance levels vary greatly for several reasons.

1. The 7(a) loan program portfolio analysis is based on the Loan Status Report (1502) submitted by the lenders to Colson. If the lender does not submit it, the loan is considered delinquent, even if it is not. As the reporting system is improved, the benchmarks between the different programs will narrow.

   In the 504 loan program, Colson debits the borrowers' accounts electronically. It does not have to rely on a lender's report to identify delinquent accounts.

2. The 7(a) loan program has only one accounting system for loans.

   The 504 loan program has two accounting systems: one for the loans and one for the debentures sold to investors. HQ has current data on both accounting systems and is able to identify accelerated debentures as well as past-due loans.

3. The 7(a) loan program is designed for all types of small business needs, including short, intermediate, and long-term.

   The 504 loan program is designed specifically for long-term fixed assets where the borrower is usually an established business.

Five categories have been chosen to serve as benchmarks for a mandatory review. They are listed below with their definition and performance benchmark, which establishes parameters for satisfactory performance in all delivery methods of the 7(a) and 504 programs.

A. **7(a) Performance Benchmarks/Definitions.** The 7(a) program and its various delivery methods will employ the risk management benchmarks as defined and developed by the Risk Management Committee.

   1. Currency Rate <=70 percent

   Percentage of loans that are 0 to 30 days past due in scheduled payments; deferments are not included even though these loans are technically current because deferred loans by their very nature have underlying problems that necessitated the deferment. Currency rates are based on the total outstanding ("active") loan portfolio – paid-in-full (PIF) loans and charge-offs are not included, but delinquent and liquidation loans are. "Active" equals all loans outstanding including "past due" and "in liquidation." PIFs and charge-offs are not included.

2. Delinquent Rate >=11 percent

Percentage of loans over 60 days delinquent including those in liquidation compared with total outstanding ("active") loan portfolio; PIFs and charge-offs are not included. Liquidation is included in the delinquency total to give a true picture of a lender's problem loans – it also recognizes that lenders have different means of classifying severely delinquent accounts as being in liquidation, and when they are so classified.

3. Default Rate >=9 percent

Percentage of loans purchased compared with total loans disbursed by a lender, consisting of the outstanding (active) portfolio plus PIFs and charge-offs.

4. Liquidation Rate >=7 percent

Percentage of loans being liquidated (in liquidation status) compared with a lender's total loans outstanding (active portfolio). Loans are generally classified in liquidation when workout attempts have ceased and a lender begins enforced collection procedures to obtain recovery.

5. Loss Rate >=6 percent

Losses (charge-offs/write-offs) will be calculated as a percentage of total loans disbursed, outstanding (active) portfolio plus PIFs and charge-offs. Losses are an important measure since a lender's currency rate may be high, giving a false picture of a healthy loan portfolio although the lender may have a high loss rate. Losses will be tracked on a cumulative basis (i.e., total losses on a lender's portfolio as a percentage of the total disbursements for all loans originated since fiscal year 1989), and subsequently on an annual basis by loan cohort (total losses by fiscal year compared with total loan disbursements for that fiscal year).

B. **504 Performance Benchmarks/Definitions.** The 504 program has adopted the benchmarks developed by the Risk Management Committee. The 504 database used for the calculations was developed by combining data from SBA, Colson Services, and Harris Trust. At this time, only HQ personnel have access to this database. (All calculations are made as a percentage of dollars).

***Active Portfolio: Sum of all loan balances not paid in full or charged-off.*
***Total Dollar Amount of Loans Funded: Sum of all funded loans regardless of status.*

1. Portfolio Currency Rate <90 percent

   Currency Rate: Loans that are 0 to 30 days current compared to the total active portfolio. *(Sources: Colson, SBA)*

2. Delinquency Rate >=5 percent

   Delinquency Rate: Loans over 60 days delinquent, including loans in liquidation, compared to the total active portfolio. *(Sources: Colson, SBA)*

3. Default Rate >=9 percent

   Delinquency Rate: Loans over 60 days delinquent, including loans in liquidation, compared to the total active portfolio. *(Sources: Colson, SBA)*

4. Liquidation Rate >=5 percent

   Liquidation Rate: The balance of loans in liquidation compared with the total active portfolio. *(Sources: Colson, Harris Trust, SBA)*

5. Loss Rate >=3 percent

   Loss Rate: The balance of loans charged off compared to the total dollar amount of loans funded. *(Sources: Harris Trust, SBA)*

C. **LowDoc Benchmarks/Definitions.** Prior to FY 2000, LowDoc lenders had been pre-selected for review based upon the criteria set forth below. In fiscal year 2000, LowDoc will adopt the risk management benchmarks for review determination. The 1999 review list included lenders that:

1. Have 10 percent or more of the field office total LowDoc loans for the prior fiscal year (REVIEW IS MANDATORY);
2. Had a LowDoc purchased or "in liquidation" within 12 months of first disbursement (REVIEW IS MANDATORY); or
3. Have 5 or more LowDoc loans outstanding and a combined over 90 days past due and "in liquidation" rate higher than the national average (REVIEW IS MANDATORY).

Retrieve the LowDoc criteria at: "yes.sba.gov/offices/fa/oversight.html."

IV. Using the Provided Data to Determine the Lenders for Review.

A. **7(a) Data Interpretation.** Retrieve these documents at: "yes.sba.gov/offices/fa/oversight.html." Specific instructions on preparing and analyzing the 7(a) data are included in this Guide as Attachment A.

B. **504 Data Interpretation (Exhibits A & B).** Retrieve this document at: "yes.sba.gov/offices/fa/oversight.html."

Exhibit "A" -- sample format from the left

504 Benchmark Data for 1999 Reviews											
Primary District Office		CDC#	CDC Name	Portfolio Currency Rate	Bench	Portfolio Currency 3 Years or Less	Bench	Debenture Purchase Rate	Bench	Time Averaged Debenture Rate	Bench
101	Boston, MA										
		01-789	Jolly Roger CDC	89.74%	<90%	90.91%	<90%	9.09%	>10%	87.88%	<90%
		01-799	East West CDC	94.44%	<90%	100.00%	<90%	13.64%	>10%	81.25%	<90%
		01-801	North South CDC	98.59%	<90%	100.00%	<90%	6.10%	>10%	84.85%	<90%
		01-805	Levity West CDC	100.00%	<90%	100.00%	<90%	4.17%	>10%	94.74%	<90%
		01-911	Mid-South BFC	98.45%	<90%	97.65%	<90%	4.74%	>10%	92.25%	<90%
		01-925	West Eastern North Western IDC	100.00%	<90%	100.00%	<90%	10.00%	>10%	90.91%	<90%

Retrieve this document at: "yes.sba.gov/offices/fa/oversight.html."

Exhibit "B"-- sample format from the right side, including the important fields, "Number of Benchmarks Triggered" and "Review Indicator"

Time Averaged Debenture Rate	Bench	Loans More Than 90 Days Past Due	Bench	Number of Benchmarks Triggered	Loans in Portfolio	Portfolio Balance	Review Indicator
87.88%	<90%	0	>1	2	38	$8,941,994.27	
81.25%	<90%	0	>1	2	18	$6,412,185.30	
84.85%	<90%	0	>1	1	78	$23,259,419.69	
94.74%	<90%	0	>1	0	63	$16,189,274.49	
92.25%	<90%	0	>1	0	194	$74,118,030.06	
90.91%	<90%	0	>1	0	19	$5,570,184.72	

Retrieve this document at: "yes.sba.gov/offices/fa/oversight.html."

C. **LowDoc Data Interpretation**. A report has been provided which indicates the lenders that MUST be reviewed. Field offices are reminded to review paragraph II(E) of this Guide which describes the random loan selection process and mandates that a minimum of five loans must be selected for review that were issued under the delivery method that triggered the review, in this case, LowDoc.

Retrieve this document at: "yes.sba.gov/offices/fa/oversight.html."

V. Review Preparation and Arrival On-Site.

A. **Task Priority**. The following is a timeline for field offices to follow when implementing this system.

1. Determine Lenders for Mandatory Review. PLP and PCLP lenders get a mandatory review each year. PLP lenders will be reviewed by the PLP review team, with assistance from the local field office if the review includes non-PLP loans. Beyond this requirement, reviews are mandatory for a lender that, for the previous complete fiscal year, met or exceeded benchmark performance in only zero or one benchmark, regardless of whether or not they received a review the previous year.

2. Prioritize Remaining Lenders. Using the benchmarks and the priority system in this Guide (chapter II, paragraph F), prioritize the remaining lenders for possible review.

3. Determine Unilateral Waivers. For the lenders that qualify, determine those that will receive a unilateral waiver and notify HQ (Third year of cycle only - see Unilateral Waivers, Chapter II, Paragraph H.)

4. Develop Review Plan. Develop a plan to begin the review process. Remember that SBA policy requires six reviews per quarter until all required reviews are completed.

5. Other Waivers. If completing all of the reviews is not possible, select some of the best performing lenders (as indicated by the benchmark score) and request a waiver from HQ. (Third year of cycle only – see Other Waivers, Chapter II, Paragraph I.)

B. **Personnel Selection**. Personnel selected from the field office to conduct the review must offer a diverse knowledge base and include at least one representative with knowledge of the programs that are being reviewed. If the field office finds it necessary, it may include field counsel on the review team. If the PLP review team is conducting a review of a lender that participates in a delivery method (or methods) beyond PLP, they must contact the field office responsible for that lender for field office assistance in conducting the review of the non-PLP loans.

Field offices must provide personnel upon request from the PLP review team. For the field offices, providing staff to assist the PLP review team by conducting the review of the non-PLP loans is a major time-saver. A PLP/LowDoc lender that does 200 PLPs and 100 LowDocs in a year would require a "LowDoc" specific review of 20 loans (20 percent of the 100). Since the reviews are done together, a maximum of 10 LowDoc loans will get reviewed. PLUS, in these cases, the PLP team will complete the report!

C. **Set the Date.** The date for the on-site review should be set about a week in advance, but may be set further in advance if required to secure necessary loan files. Be sure to discuss the date selection with the lender to ensure a mutually agreeable date. You must inform the lender that it is required to provide you with at least one staff person to assist and answer questions.

You should also discuss with the lender the location of the loan files to ensure that the files to be reviewed are available for the review. You must give the lender the minimum amount of time necessary to ensure the files are available on the day of the review. The field office must use its best judgement in making the determination of when the specific loans to be reviewed are disclosed to the lender.

D. **Conduct.** It goes without saying that your team must be professional and courteous at all times. You cannot accept gifts from the lender (no, they can't take you to lunch either), however, if they offer you coffee or soft drinks, etc., you may accept it. Remember to keep your professional distance.

E. **Using Laptops/Review Strategy**. The process has been designed to work with one laptop per review team. The most efficient way to conduct many reviews quickly is to break reviewers into two or three person review teams and conduct simultaneous reviews, with one person from each team serving as the entry person and the others examining the files to find necessary information. Or, each person can take turns as the data-entry person (the preferred method during testing of the system). Using this method, more than one lender can be reviewed at once (via the use of two or more laptops and two or more review teams).

Example: (Three-person review team, one laptop). The team begins with a review of the lender's oversight. They enter "7(a)/504" in the "Oversight" tab and the relevant questions turn green. One person starts at the laptop. The two reviewers alternate questions until the "Oversight" section is complete. The next reviewer takes a turn on the laptop. In the loan file, one reviewer pulls the credit memo (loan officer's report) and the other has the application. Since many of early questions deal with one or the other, the person at the laptop "calls" the question and the reviewers find the answer. Later, when the questions deal with the authorization and the credit memo, one person will be reviewing each. Using this method, a loan can be objectively reviewed quickly.

Another method for use with one laptop is to print the questions out and have several reviewers circling the "YES" or "NO" answers and handwriting their brief comments. As each loan is completed, the form is given to the designated data-entry person for entry into the spreadsheet. Once the loan-by-loan review is completed, the team meets to enter comments on the required areas of the "scoring" tabs.

That said, it is possible (although it is NOT the preferred method) to use up two laptops for a review of one lender. There are two ways this can be accomplished.

1. Copy and Paste. If you need to use two laptops for one review, have one team (Team A) start by completing the "Cover" tab. Team A will start reviewing loans and entering results on the "Loans 01-35" tab on their laptop. Team B will start on the "Loans 36-70" tab on their laptop. One team will complete the Oversight section. When the loans have been reviewed Team B saves their file to a floppy disk, (be sure that the name is not the same as Team A's), and copies the file to Team A's laptop. Once the file is there, use copy and paste to copy responses from Team B's spreadsheet into EMPTY loan review areas in Team A's. Once done (and remember to ensure that the oversight section answers are on the new master version), meet as a team and make your final comments on the scoring page. Be sure to only copy the cells where entry is permitted, the rest of the spreadsheet is locked. Once this is done, complete your report as required.

2. Enter, Print, Record. It may be faster to enter data using multiple spreadsheets and print the results from each for final entry into a master spreadsheet. Once data is summarized complete required comments and the report as required.

F. **Loan Review Without a Laptop**. It is possible to conduct a lender review under this system without a laptop.

1. Paper forms using the proper questions must be obtained from HQ.

2. The review team should enter the results from each form into a computer at their office when the review is completed, using the "LenderReview.XLS" spreadsheet (this is to ensure consistent scoring).

3. The review team should submit their final report electronically and in the required format.

If the field office does not have the resources to complete its reviews in this fashion either, the office should e-mail the "Comments 2000" mailbox and indicate the nature of the problem. The Loan Programs Division will work with field offices to establish alternative methods in these cases.

G. **Arrival On-Site.** You should bring to the review:

1. SOP 50-10, 50-50, and 50-51;
2. 13 CFR 120;
3. Laptop Computer with Windows '95 or '98 and Office '97 (if entering the data on-site);
4. Mouse/mouse pad*. (This is optional but during testing it was found that the use of a mouse and mouse pad speed up the data-entry process);
5. Printer. This is only required if you are completing your REPORT on-site OR if you are using two laptops and will print the results from one laptop for entry into another.

* (Remember to plug in the mouse before you turn on your laptop!)

Upon arrival on-site, your team should meet briefly with the lender's personnel designated to assist you. In this meeting you should outline the procedure:

Tell the lender….

1. You will review "X" number of loans;
2. They have been selected at random;
3. They will be reviewed one at a time, but all of them should be pulled immediately (if on-site); and
4. That the review of a loan file does not take the place of a pre-purchase review.

VI. Conducting the Review.

A. **Spreadsheet Contents**. The review team has been provided with an Excel spreadsheet ("LenderReview.XLS") to be used to complete the review of the lender's practices. The spreadsheet contains:

1. One general information form to serve as a cover sheet for the review file;
2. Two loan review forms (1 for loans 1 through 35 and 1 for loans 36 through 70, if needed);
3. One oversight review form; and
4. One scoring form that scores the results. It is this section that will be included in your report.

B. **Scoring Notes**. As the loan-by-loan reviews are completed, the spreadsheet will begin calculating the score for the lender. The score is only complete once all possible answers have been completed. There are a few general principles the field offices/review teams must be familiar with regarding the scoring system.

1. <u>"N/A" Answers Don't Count</u>. If a question is answered "N/A" it does not count for OR AGAINST the lender. Example if there is a 100 question

test and the answers of 6 questions were “N/A” then only 94 of the answers would be used in any calculation.

2. The Scoring is Weighted. Each question has been assigned a specific weight.

   a) Eligibility and credit questions (Processing section) are generally weighted more heavily than other questions.

   b) While other questions may have a lesser weighting, the volume of these questions adds up.

   c) The weighting increases exponentially with each occurrence. A two point question deducts two points for the first error, eight points for the second (2 X 2 X 2) points, etc.

   d) The dollar value “Potential Risk” is summarized but not applied to the final score. It must not be commented upon in the review team’s report.

C. **Using the Spreadsheet**. The same form is used to review all loan programs. The spreadsheet is programmed to change depending upon what type of loan is being reviewed. If you are reviewing a PLP lender, the questions required may vary if one of the loans reviewed is a LowDoc. A color-coding system has been developed to indicate the portions of a review that are required for a given program. For any loan reviewed, the following codes apply.

GREEN: GO! If you a reviewing a loan and a cell is green, a response is required.

RED: STOP! If you are reviewing a loan and a cell is red, no response is permitted.

YELLOW: OPTIONAL! If you are reviewing a loan and a cell is yellow, making changes/entering a response is optional.

PURPLE: ERROR! Error/Problem indicator.

BLUE: FYI! Information cell.

D. **Help Comments**. The question number (column A on the review forms) and actual question (column B on the review forms) also have comments available to assist you as you answer the questions. Simply place the cursor over the applicable cell and a pop-up box will appear. The question number (column A) pop-up boxes contain information to help determine if the answer is a “YES” or

"NO." The question (column B) boxes contain the SOP reference(s) if you need to review the relevant section of the SOP.

Once you click on a cell, directions will also pop-up indicating the type of response permitted.

Important Note! When completing the Oversight section, you need to enter the program that has caused the review. If the lender is PLP and the PLP team is conducting the review, then response must be PLP. If the field office is conducting a review of a LowDoc lender, then the response must be LowDoc. While it is not required, the PLP review teams have found that completion of the "Oversight" section is easiest when done prior to the loan-by-loan review.

E. **Reviewing Loans**. When you start to review a loan, you must first enter the loan type. For loan type, click on the cell "NOT USED" under loan #1. The arrow that appears to the right of the cell indicates that you must respond with a selection. Click on the arrow and select the type of loan. The response cells for the questions will change from red to green. The cell to the right of the blue "error message" cell will change to purple. The error is indicated because you have now selected a loan type, but have not yet responded to the required questions or entered a loan number. This cell will turn blue again once all required responses are made. Now enter the loan number you are reviewing (remember to enter it into the green cell and not the blue one). **This is entered to the right of the loan type (it starts out as "????????")**. It must be 8 digits in length. Example: 12345630.

Now you can answer the questions. Select the first green cell under loan #1. Again you get an arrow indicating that you must select (vs. typing) your answer. When a "NO" answer is given, the "Comment" cell for that question will turn green, indicating that a response is required. Comments must be brief (one or two sentences) and to the point. For a few questions, comments are required for either a "YES" OR "NO" answer. These question numbers are blue and the comment field for these questions is green for either a "YES" or "NO" response. Again, **all comments must be brief and to the point**.

Be sure to complete all of the relevant questions for each loan. For loans selected as "Servicing" or "Liquidation" loans the reviewer need not complete all of the other sections of the loan review. The other sections must be filled in however using the "N/A" response. The same holds true of loans selected from the previous year's approvals. These loans need not get reviewed for "Servicing" or "Liquidation" so that section may be filled in "N/A."

1. A No is a No. The questions have been structured to allow only three possible answers, "YES," "NO," and "N/A." "N/A" must only be used if the question does not apply for that loan or loan program. The proper response for a question on the form must be "NO" if ANY PART of the

question may be answered "NO" or if there is any part of the question that cannot be answered with a definitive "YES."

While lenders should be encouraged to correct problems as they are encountered, you may NOT change a response from a "NO" to a "YES" if a problem is corrected after-the-fact. If the lender can produce a missing document in a reasonable time and demonstrate that the missing item was due to their internal file locations, you may change the answer to "YES," otherwise your response must be "NO."

If the lender does FIX an omission or otherwise incorrect document, you may consider the fact and comment on the correction in your report, (as well as any measures taken to ensure that the cause of the problem has been solved). However, the answer must still be "NO" for the question and score must reflect what was found to be the case at the time of the review. If the lender is placed into a corrective action period, then the lender's action plan must reflect steps taken to ensure that the error will not re-occur.

2. Financial Risk. On the bottom of the column for each loan is a field that enables the review team to *enter an amount of SBA's potential net financial risk as a result of the negative answers for the loan*. SBA's potential risk should be calculated on a projected "cash out" basis. Reviewers should not assume any mitigation of this risk via repair or denial of the guaranty. Review team members shall calculate this amount to the best of their ability using the most objective methodology available, but should not spend undue time on it. While its completion is required, a "best objective guess" will be acceptable in most cases. "0" is an acceptable response if in the reviewer's judgement the error does not place SBA in a position of possible loss. If there IS financial risk involved with a loan, the comment field next to the amount will change to green, indicating that the reviewer must comment on the estimated risk. **This item does not count toward the score for the lender**. Reviewers must comment on the final estimated risk, but must not take this factor into account when making a determination of any actions that might be taken against the lender. This number is provided to HQ for study regarding the accuracy of the estimates. **Again, you must NOT consider this factor in making any determinations about the lender.**

Example: The team reviewing ABC discovered that an unperfected Deed of Trust exists for a particular loan. The potential loss would be the lesser of the liquidation value of the collateral that is unperfected or the guaranty portion of the outstanding loan balance.

As the forms are completed, the "Scoring" tab will record the results and offer a total score for each question and overall for the lender. For any question that does not score at least 80 percent after weighting, the reviewer must comment on the summary tab (the comment field will turn green when comments are required). Your comments from all of the loans for the question will be summarized to the right of this cell (in blue). This will provide the review team with a quick reference regarding the problems encountered. These final comments should be brief (a sentence or two) and summarize your comments from the previous "NO" answers.

When you have completed your loan reviews, the final score will be automatically calculated on the "Scoring" tab.

3. Oversight Review Section. The review team will also conduct a review of the lender's oversight capabilities. On the spreadsheet, this section is at the bottom of the question list. Completion of the Oversight questions is done once (not for every loan) and is only included on the "Oversight" tab.

   Oversight responses require the review team to work closely with the staff of the lender to determine what oversight capabilities exist at the field office.

F. **Exit Interviews**. When the Loan Reviews and the Oversight section are complete, conduct an exit review with the lender. These reviews must be limited to the actual results of the review. Review personnel must offer no conclusions/recommendations at this time, but they may convey the score as indicated on the "scoring" tab. Conclusions/recommendations must only be provided to the lender as part of the written review.

VII. Completing the Report.

A. **Scoring**. The final score on the summary tab is automatically calculated and will provide a compliance rating based upon a 100-point, percentage-based scoring system. Below is the scoring grid.

1. 85 – 100. **Substantially in Compliance**. The lender is found to be "substantially" in compliance. No corrective actions are automatically required (see Chapter VIII for corrective actions). The field, however, may still opt to require corrective actions. Lenders that have passed all five benchmarks and score in this range will be presented the "Excellence in SBA Lending" award.

2. 70 – 84. **Generally in Compliance**. The lender is found to be "generally" in compliance. Lenders scoring at this level may be placed by the field into a corrective action period (see Chapter VIII for corrective actions).

3. 50 – 69. **Minimally in Compliance**. The lender is found to be "minimally" in compliance. Lenders scoring at this level must be placed by the field office into a corrective action period (see Chapter VIII for corrective actions).

4. Below 50. **Non-Compliance**. The lender must be placed in an immediate action period (see Chapter VIII for corrective actions).

B. **Writing the Report/Best Practices Nominations**. Based upon the scores of the loan review, the review team must prepare their report (five-page maximum, excluding the required appendix) that outlines their findings and actions taken.

1. Best Practices. During some reviews, the lender may have a procedure in place that excels so significantly that you wish to formally compliment them. In these cases, you may nominate the lender for a "Best Practices" award. These parchment awards will be issued by the Loan Programs Division to the lender if approved by the AA/FA or designee. These nominations must be one page in length and be under separate cover. The nomination must detail the process or procedure that has warranted the nomination. Do not comment on the lender's overall performance. Fax (they must be signed) nominations to "Lender Oversight" at 202-205-7722.

The nomination must be signed by the appropriate district director or Chief of the PLP Review Branch. Nominations must only be made for procedural excellence, not raw performance. Nominations may be made for any lender that displays excellence in an area, regardless of their overall score. A lender that has received a poor review may still have a procedure that deserves to be recognized. That said, it is important that SBA offer "Best Practices" awards only to those lenders that have processes/procedures that truly excel. Overuse of the award system will dilute its importance. Be sure to balance the desire to nominate with the need to prudently issue the awards.

Example 1: The field office has completed a review of a lender who scored "Minimally Compliant" due to inadequate credit analyses. However, the "tickler" system employed by the lender for servicing was the best anyone had ever seen and their servicing and file maintenance was flawless as a result. The field office may choose to nominate this lender for a "Best Practice" award, even if the lender is being placed in a Corrective Action Period (see Chapter VIII for corrective actions).

Example 2: The field office noted that every question was correct on every loan. However, the lender's methods of attaining this level of performance were not exceptional. The lender would not warrant a "Best Practices."

2. Report Sections. The Lender Review Report MUST be in the following five sections (please note that the sections of the report match the sections from the review form, plus a section for conclusions):

   a) Processing/Forms/Eligibility/Credit;
   b) Due Diligence/Authorization/Closing;
   c) Servicing/Purchases/Liquidation;
   d) Oversight; and
   e) Summary/Recommendations.

   The report must include a cover memo, a cover page, and be signed by the team leader and the ADD/ED or equivalent. (An example of a completed report is included as Attachment B.)

   Loan-by-Loan Review Sections. In these sections (a, b, and c above) the review team must address any question where the score for the question was below 80 percent or the review team has a concern regarding their findings. In these cases, the team should offer specific examples of loans where the lender had taken an inappropriate or insufficient action. Items must be bulleted and brief (to the point).

   Example of a comment in the processing section: "Was the management ability of the borrower analyzed consistent with SBA policy?"

   "In one of the five files reviewed, the lender did not properly justify the release of collateral."

   Oversight Review. In this section the review team must address any of the lender's portfolio management or procedural areas that they consider of sufficient magnitude that it poses potential risk to SBA.

   Example of a comment in the Oversight section: "Did the lender document its review process of its portfolio and provide documentation of actions taken?"

   "The lender could not provide our team with any specific means by which they monitor their SBA portfolio. There was no record of actions taken and no procedure for routine review of portfolio information provided by SBA."

   Summary/Recommendations. In this section, the review team must summarize their findings and detail their recommendations including any corrective actions taken. The summary must also disclose to the lender findings in specific loan files that could adversely affect the Agency's obligation to purchase the loan if a request for purchase is subsequently initiated. The nature of the deficiency should be of such importance that, absent any further review, SBA would likely invoke its right under 13 CFR §120.524(a) of the SBA Regulations to release itself from the guaranty. An example of this type of lender notification is presented in the sample Lender Review Report described in the Special Note section found in Attachment B of this Lender Review Guide. The review team must utilize the computer scoring and benchmark performance to make their overall determination, but within the parameters of the score the review team may take any action (see Paragraph VIII – Corrective Actions).

Example:

- "The lender received a score of 85 and was therefore judged to be "Substantially" in compliance. Our review finds that while this lender requires training to ensure consideration of the management capabilities of the borrower when making their credit determinations, they do a great job overall with their credit analyses. We are nominating them for a "Best Practices" award for outstanding credit analysis procedures. However, they have no procedures in place for routine review of their portfolio. Their currency and delinquency rates as indicated by the benchmark report reflect this. Therefore:

    1) We are offering them training on the proper procedure for submission of eligibility questions.
    2) They have been asked to submit to our office an action plan outlining their proposed changes to their SBA portfolio monitoring system."

Appendices. Each report will include two Appendices. Appendix A will recap the overall scoring of the lender as summarized on the Scoring tab section of the Excel spreadsheet. Appendix B will detail all loans in the sample that had deficiencies summarized in Sections I-III, or were identified in the Special Note section of the report.

When writing the report, keep in mind that the purpose of the review is to educate and work with the lender to address performance issues. Remember to compliment the lender for good performance as well.

C. **Submission/Computer Process Requirements.**

The section below outlines the process of completing and submitting a review.

1. Save First. Before you start the "Loan-by-Loan" review for a new lender, load the spreadsheet form (LenderReview.XLS) and save it using the FIRS number of the lender you are reviewing. If a particular lender has multiple FIRS numbers and qualifies for one review, select the FIRS number that contains the most loan activity.

Example: Load "LenderReview.XLS" and save it as "c234567.XLS" because c234567 is the FIRS number of the lender reviewed on that form.

This spreadsheet will not be submitted to HQ. However, field offices are required to maintain them for 2 years.

2. Save Second. When naming the "Word" document file used to complete your report on the lender, use the FIRS number of the lender. If a particular lender has multiple FIRS numbers and qualifies for one review, select the FIRS number that contains the most loan activity.

   In the example of lender c234567 from #1, you would save your write-up in Microsoft Word as c234567.DOC.

3. Create the Appendix. When you have completed the written report and are ready to send it to the lender and HQ you should use "copy and paste" to copy the CONTENTS ONLY (only select the cells with something in them) of the "scoring" tab to the back of your report. Set it up as Appendix A in your report. Here's how you copy the "scoring" tab:

   a) Add a page break at the end of your report and create a page "Appendix A;"
   b) Add a page break after the "Appendix A;"
   c) Leave your report open in Word and start Excel (if its not already running);
   d) Open the file of the review (remember the file should be the primary FIRS number of the lender);
   e) Go to the "Scoring" tab;
   f) Starting in cell P134, hold the left mouse button down and select all cells to A1; you should now have block highlighted that includes all scoring information and the comments you typed into the "scoring" tab (do not include the loan-by-loan comments in column Q);
   g) With your selected area still highlighted, select "edit" from the menu bar then select copy;
   h) Go back to your Word document and make sure you are after the last page break and select "edit" and then "paste" from the menu bar; and
   i) You may need to change the margins of the pages to ensure that all of the text will print.

4. Save the Completed Report. Once this is complete, save the completed Word file to your storage directory (remember that files must be maintained for 2 years) print, and get the report signed by the designated

official. Mail or fax a copy to the lender and e-mail a copy of the final report to: "Lender.Oversight@sba.gov."

In the example above, you would do the following:

a) Save LenderReview.XLS as c234567.XLS (the **Excel** spreadsheet of the review);
b) Complete the review;
c) Discuss the score with the lender, but not your pending recommendations;
d) Write your report;
e) Copy and paste the "scoring" tab from the spreadsheet to your report and make it Appendix A;
f) Save the file as c234567.DOC; (the **Word** write-up of the review), complete the cover memo, have it signed, and e-mail the file to HQ.

The completed review materials must be sent by the Senior Financial Officer conducting the review. The submission of these reports to HQ is mandatory, and electronic submission is preferred. The review team must submit its report on the review no later than 3 weeks after the review. It is possible and acceptable to complete the total review on-site if the necessary signatories are available (part of the review team).

5. Paperless Process. Only electronic submissions will be accepted from field offices that have not made other arrangements. An exception to this policy is recommendation for suspension of a lender. **For suspension recommendations, a written request to the AA/FA is required**.

D. **Loan Deficiency Notification.**

1. **Notice from Review Team.** If the final report discloses loan deficiencies that could adversely affect SBA fulfulling its obligation to purchase the loan if requested by the lender, the review team must notify the appropriate SBA office where the loan is currently being serviced. An example of this notice is found in Attachment E. The notice is to be transmitted electronically at the time the review team submits its report. For those reviews requiring a corrective action period, see paragraph B.2.(f) under Corrective Actions below.

2. **Internal Loan File Identification Process.** Require that the office servicing the loan take the following steps:

(a) Place the notification in the loan file;

(b) Stamp the file using a "RED" stamp which states:

"SPECIAL REVIEW REQUIRED IF
GUARANTY REQUESTED"
See Notification in File ;

(c) Comment in Delinquent Loan Collection System (DLCS):

i In the "Permanent Comments" section of the Delinquent Loan Collection System (DLCS):

"GTY Issues. SEE Chron" ; and

ii In the Chron Record:

Reference the memo placed in the file from the review team that indicates that issues have been raised that must be addressed if a subsequent guaranty purchase is requested.

VIII. Corrective Actions.

The following section outlines a follow-up process for all lenders except PLP lenders. Follow-up actions originating from a PLP review are coordinated through the Office of Financial Program Operations.

A. **Unilateral Actions**. Upon completion and documentation of the review, the field office may take any unilateral action currently permitted by SBA policy for the lender's respective program. This includes unilateral suspension actions currently permitted by policy for each loan program (as it applies to the lender in question).

B. **Other Actions**. In addition to any unilateral authority, current policy permits the field offices to undertake these additional measures if deemed necessary.

1. Corrective Action Period. The field office may also take steps to assist the lender in an effort to improve performance in areas that the field office determines to moderately inadequate, but do not pose an immediate and unacceptable level of risk. One suggested action is a 90-day corrective action period, a period during which the lender must demonstrate that steps have been taken to improve their performance and/or lower their proportional risk to SBA's portfolio. The purpose of the corrective action period is NOT to punish the lender. It is a means to ensure that the lender addresses issues raised in the review without imposing action or otherwise micro-managing the lender.

a) When a corrective action period is initiated, the field office must require the lender to submit an action plan, 3 pages or less, that details the specific actions that the lender will take to improve performance (training, new procedures, etc.). The field office may decline an action plan that it deems unacceptable. The lender has 10 working days from the date of its receipt of a review report requiring the submission of an action plan, to complete and submit to the field office an acceptable action plan. Field offices may extend this period another 30 business days at their discretion. If the lender does not submit an acceptable action plan within 30 business days of notification from the field office and has not requested additional time from the field office to complete the plan, the field office must recommend to the AA/FA or designee suspension from the applicable program. Copies of approved action plans must kept on-file at the field office and submitted with any recommendation for suspension. (A sample lender action plan is attached as Appendix D.)

b) In advance of or during a 90-day corrective action period the field office, at its option, may choose not to accept loans from the lender under any form of expedited processing. However, the field must continue to accept and process the lender's loans during this period following regular 7(a) or 504 processing procedures.

c) In advance of, or during the 90-day corrective action period, the field office may recommend to the AA/FA or designee suspension of PLP, LowDoc, or PCLP status for the duration of the correction period.

d) At the conclusion of the 90-day corrective action period the field office must review the lender's action plan and confirm with the lender that the initiatives outlined in the lender's action plan have been executed. The field must also verify and document that any performance goals or modifications set in the lender's action plan have been attained. If the field office's review of the lender's efforts satisfies the field office that the lender has taken steps to bring risk within acceptable parameters the field may choose to:

i. Extend the corrective action period for another 90-days; or

ii. Declare the lender in compliance and cease further action.

e) If the field office is not satisfied at the conclusion of the 90-day corrective action period that the lender has made significant progress, the field office may extend another 90-day corrective action period or recommend suspension of the lender. (In cases where suspension will be recommended, refer to either Chapter 6, Subpart A of SOP 50 10 4, or SOP 50 50 4 Chapters 3 or 6 Chapters 3 to ensure that the proper procedures are followed for the type of lender in question).

f) If the review team discovered a loan or loans that may adversely affect SBA's obligation to purchase the guarantee, they must notify the appropriate SBA loan servicing center of the loans that may require further investigation of the guaranty (similar to reviews conducted for the

Office of Inspector General). See Chapter 6 under Submission/Computer Process Requirements for instructions on proper notification.

2. Immediate Action Period. An immediate action period is a 30-day action period that the field must use as a last resort before recommending suspension of the lender. The lender must be granted 5 working days to develop a plan of action for change, subject to the approval of the field office. At the conclusion of a 30 day immediate action period the field office has only 3 options:

   a) Place them into a 90-day corrective action period;

   b) Recommend suspension of lender status (e.g., PLP/PCLP status, CLP/ALP status); or

   c) Recommend suspension of processing authority (e.g., 750 agreements or CDC certification).

3. Follow-up Reviews. If the field office feels that it is necessary, a follow-up review may be conducted at the conclusion of an immediate or corrective action period.

ATTACHMENT A

7(a) Data Model Instructions

Attachment A

7(a) Risk Management / Program and Policy Oversight /
Lender Oversight Models

This section describes the five models that are being presented to the field offices, the use of each model, the computations underlying the models to establish the various performance rates, and transferring information from the model to Excel for further analysis.

1) The Models

The Information Resources Manager (IRM) in each District Office should be receiving instructions from the Office of the Chief Information Officer (OCIO) on retrieving the models, storing the models, and ensuring that the models are operational. Once the models have been retrieved and properly stored, each field office will be able to access the models to determine which 7(a) lenders are to be reviewed.

To begin, contact the IRM in your field office. The IRM will be responsible for making sure that individuals using this system will have the shortcut to the system installed on their desktops. Once the shortcut has been installed, you may begin using the system. Click on the appropriate desktop icon. PowerPlay© will begin. You will see five long buttons. Each button will open a different model. These models are described as follows:

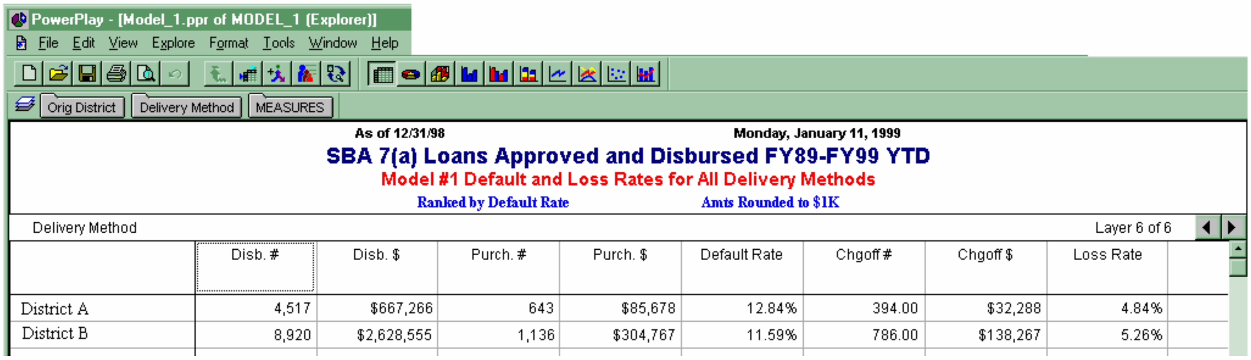
Model 1 Default and Loss Rates for All Delivery Methods
Model 2 Non-PLP Default and Loss Rates
Model 3 Currency, Delinquency, and Liquidation Rates for All Delivery Methods
Model 4 Non-PLP Currency, Delinquency, and Liquidation Rates
7(a) Lender Performance Model

All five models are built from the SBA's mainframe. The models have been broken out and include the calculated performance rates for convenience to the field. Models 1- 4 have the same general appearance. These models all work in the same way, but compile different pieces of the data. The instructions for using Models 1 – 4 will be the same. Models 1 and 2 are used for Default and Loss Rates and are based on Disbursement data. Models 3 and 4 are used for Currency, Delinquency, and Liquidation Rates and are based on Outstanding Balance data. For Non-PLP reviews, field offices should use Models 2 and 4. For PLP reviews and overall lender performance, field offices should use Models 1 and 3. For overall lender performance and more detailed information, field offices may wish to use the 7(a) Lender Performance Model. However, for purposes of determining the applicable performance rates, field offices will use Models 1-4.

2) Instructions for the Models

Models 1-4

Once inside PowerPlay©, select the appropriate model. When you open the model, you will see something similar to the following:



As of 12/31/98 Monday, January 11, 1999

SBA 7(a) Loans Approved and Disbursed FY89-FY99 YTD

Model #1 Default and Loss Rates for All Delivery Methods

Ranked by Default Rate **Amts Rounded to $1K**

	Disb. #	Disb. $	Purch. #	Purch. $	Default Rate	Chgoff #	Chgoff $	Loss Rate
District A	4,517	$667,266	643	$85,678	12.84%	394.00	$32,288	4.84%
District B	8,920	$2,628,555	1,136	$304,767	11.59%	786.00	$138,267	5.26%

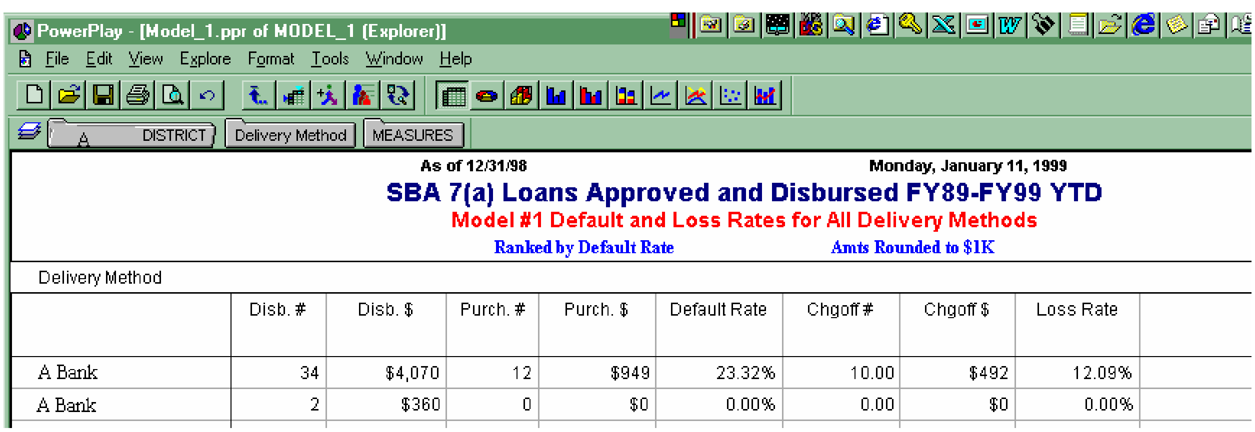
Full details on using all of the tools of PowerPlay© will be provided at a later date. As you open the tool, all of the information is arranged in the following manner: District office, # of loans, dollar value of loans used in calculating the rates, and the rate. In the example above, the columns from left to right are as follows:

District A, B	=	(Office Name will Appear)	Disb #	=	# of Disbursed Loans
Disb $	=	$ value of Disbursed Loans	Purch #	=	# of Purchased loans
Purch $	=	$ value of Purchased Loans	Default Rate	=	Default Rate (Purch $ / Disb$)
Chgoff #	=	# of Charged Off Loans	Chgoff $	=	$ value of Charged Off Loans
Loss Rate	=	Loss Rate (Chgoff $ / Disb $)			

The information that is needed for the review will be the columns with the rates. Above the columns is a field called Delivery Method. When Delivery Method is showing, all loans for that model are combined. In this instance for Model 1, Delivery Method is equal to All 7(a) including PLP, CLP, LowDoc, SBA*Express* (FA$TRAK), Other 7(a). (In Models 2 and 4, Delivery Method is the same except it does not include PLP.) To the far right of Delivery Method, the phrase “Layer 6 of 6” appears next to two arrow boxes. Clicking on the arrow box will change to an individual delivery method, i.e.,CLP.

At the top of the screen you will see three elongated gray boxes: Orig District, Delivery Method, and Measures. These three boxes correspond to the view you see above. Delivery method is the layer, Orig District is the first column and represents the rows, and Measures represents the columns. Placing the cursor over the box will produce a drop down menu. Selecting the element of the drop down will change the view. (Unless you are familiar with this tool, we do not suggest changing the view.)

The field offices are arranged by Default Rate in descending order. Scroll down to your field office name and double click on the District name. A list of all of the banks participating with SBA in your district will appear as in the example below.



As of 12/31/98 Monday, January 11, 1999

SBA 7(a) Loans Approved and Disbursed FY89-FY99 YTD

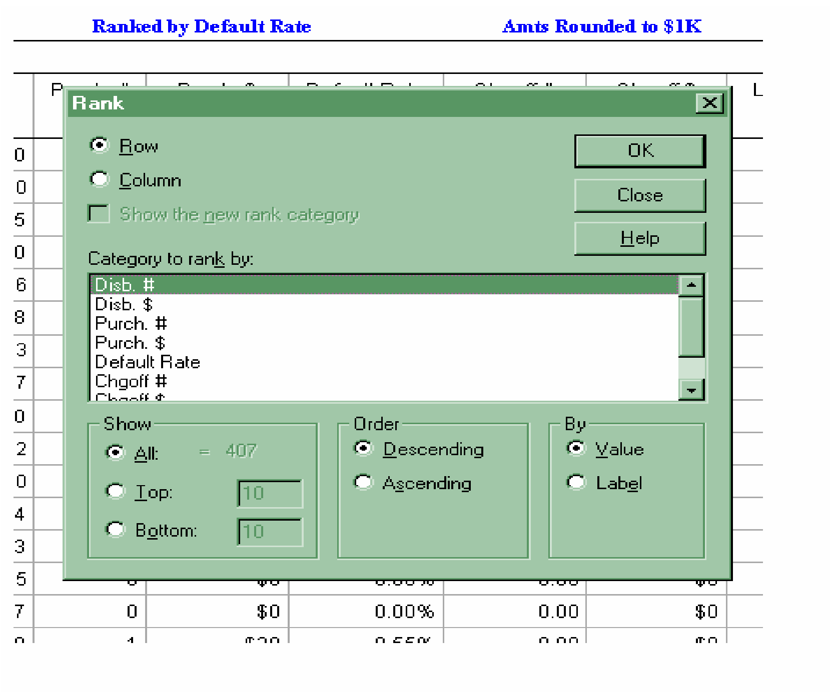
Model #1 Default and Loss Rates for All Delivery Methods

Ranked by Default Rate **Amts Rounded to $1K**

	Disb. #	Disb. $	Purch. #	Purch. $	Default Rate	Chgoff #	Chgoff $	Loss Rate
A Bank	34	$4,070	12	$949	23.32%	10.00	$492	12.09%
A Bank	2	$360	0	$0	0.00%	0.00	$0	0.00%

For this exercise, we have chosen District Office A. Notice that the first gray box above is a file folder. It is shown as open, and the name of District Office A appears on the file. (This would normally contain the name of a real district.) The banks for that District Office A appear in place of the field offices in the far left-hand column. (Again the banks with FIRS # in that field office area would normally appear here.) To get back to the original screen, place the mouse over the first gray file. At the top of the list, the words Orig District appear. Select Orig District and now all of the field offices are in the left-hand column.

After selecting a specific field office or returning to the Original view, notice that neither the field offices nor the lenders are ranked. To rank the field offices or lenders select Explore. A drop down menu appears. Select Rank. The following box will appear.



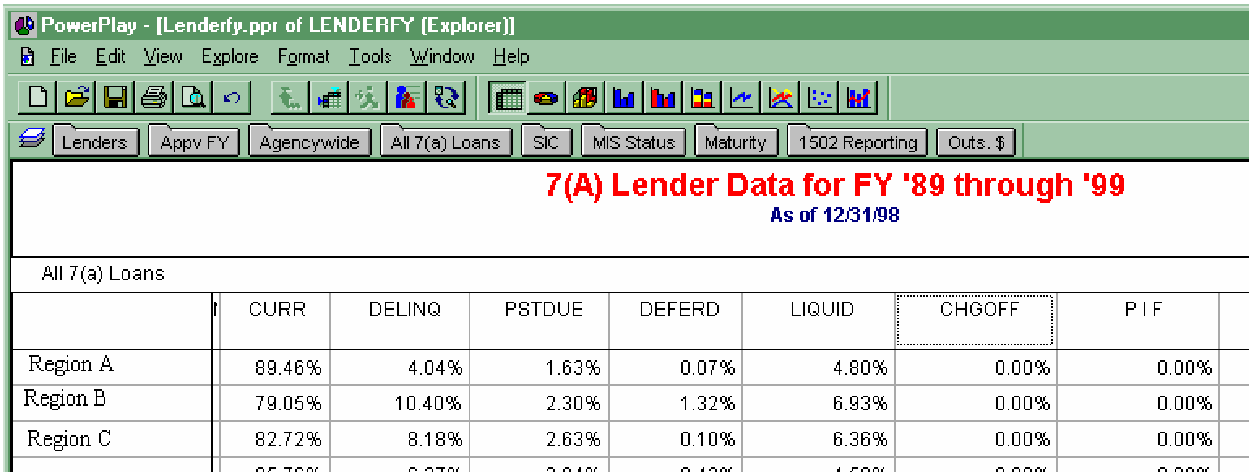
In the center box, the Measures menu appears. Select the desired measure (Default Rate is the default measure) and the order of presentation. Select OK and the lenders or field offices chosen will be ranked by the measure. Because of problems with lender linking, one bank may show up with multiple FIRS #s. Unfortunately, this system does not allow us to properly rank banks alphabetically. See section 3 of this Attachment A entitled "Exporting to Excel" for information on exporting this data to an Excel spreadsheet. When you close the model, a default message appears asking to save changes to the model. It is not possible to save changes to the model, so you must always click "No."

Following the directions above for the particular model needed, each field office should have sufficient information to identify lenders that need to be reviewed. For questions regarding the functionality of the other features within PowerPlay©, contact the Office of Financial Assistance at (202) 205-6490 or the Office of the Chief Information Officer at (202) 205-6372.

7(a) Lender Model

The 7(a) Lender Model works in much the same way as the other four models. This model does not include calculated rates. Because of the size of this model, there are more measures, more views, and more categories with which to analyze lenders. This model will provide more detailed information, but still compiles loan information by lender. Neither this model nor the others will allow for a listing of individual loans. However, this model includes information on Loan Status (1502 reporting), SIC code information, several more views, and more measures.

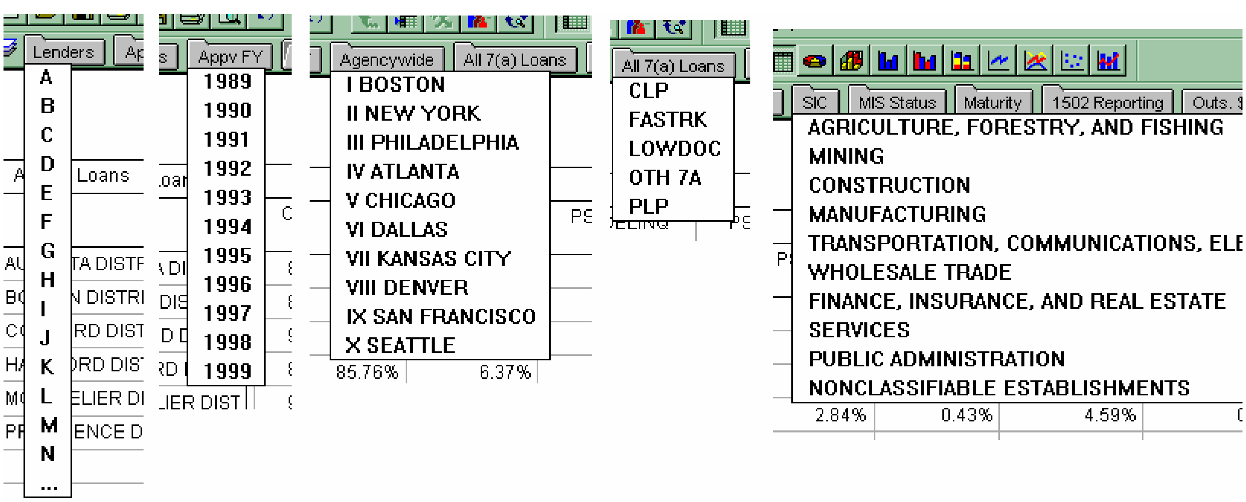
While the primary view of this model shows rates including Committed, Currency, Delinquency, Deferred, Liquidation, Past Due, Charge Off and Paid In Full, these rates are percentages of the portfolio without calculations as per the performance benchmark definitions in this document.



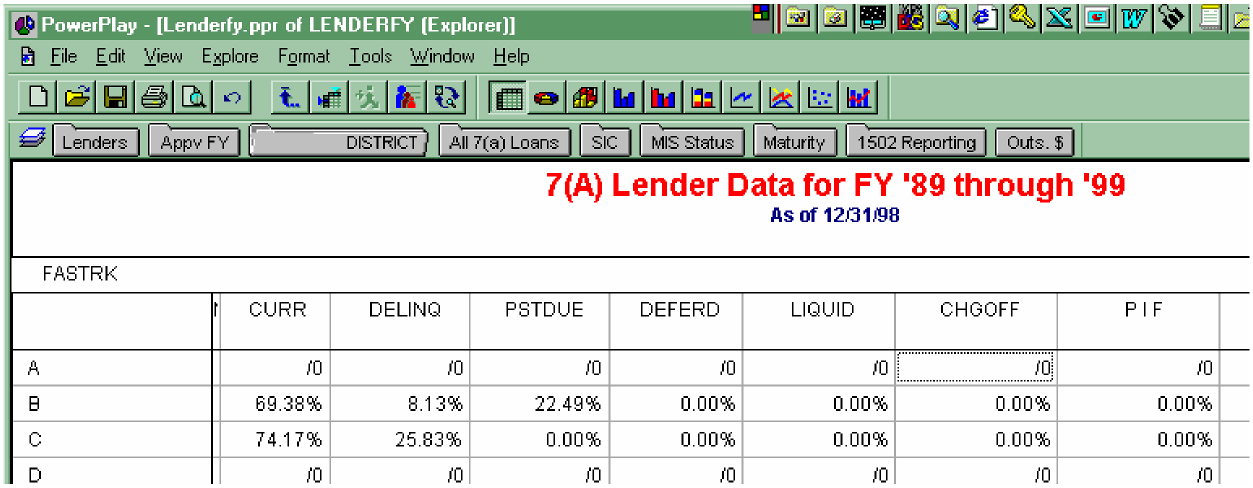
	CURR	DELINQ	PSTDUE	DEFERD	LIQUID	CHGOFF	P I F
Region A	89.46%	4.04%	1.63%	0.07%	4.80%	0.00%	0.00%
Region B	79.05%	10.40%	2.30%	1.32%	6.93%	0.00%	0.00%
Region C	82.72%	8.18%	2.63%	0.10%	6.36%	0.00%	0.00%

These rates are strict percentages of the # or dollar (depending on the view) of the loans in that category. For instance, Delinquency in this model does not include loans in liquidation. Because this model is more dynamic, and because we want the District to be able to see specifically the categories that loans fall into by lender, the rates do not reflect those in Models 1-4. Do not use these rates for determining lender reviews. This model is provided so that you may obtain more information on particular lenders.

As in Models 1-4, notice the gray boxes or file folders. This model shows nine boxes. The functionality of these boxes are the same as in the previous models. To obtain different views, you may drag the gray file to either the layer (default is all 7(a)) or the column (where the regions are located). Selecting any of the drop down layers under the gray files (gray file default is outstanding $) will change the measure field. Each of the files can be moved to a layer, column, or measure, but only advanced users should move the measure field. Below are examples of what some of the gray files contain.

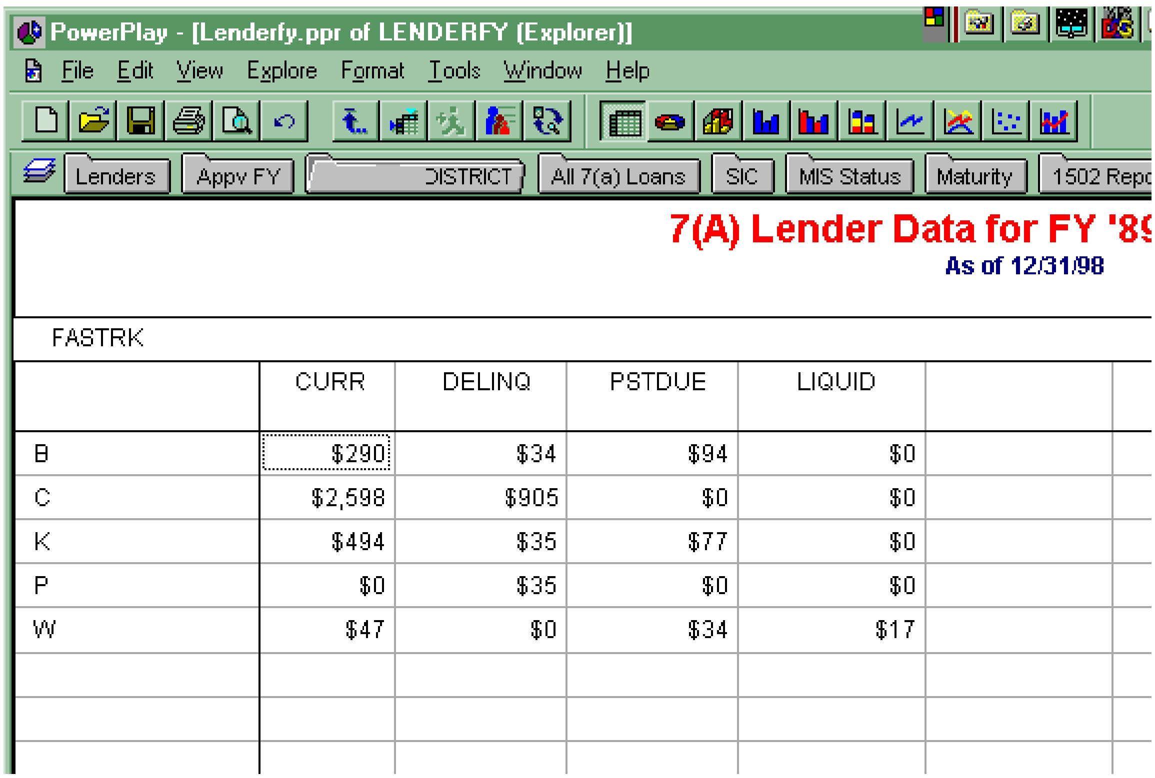


Notice that under Lender, an alphabetical listing appears. Clicking on a letter would reveal the lenders beginning with that letter. In the example below, I have double clicked on a region. I then double clicked on a particular District Office. Using the scroll buttons on the layer, I have changed from All 7(a) to FA$TRAK. Using the Lender file, I dragged the file to the column with the selected District to reveal the following:



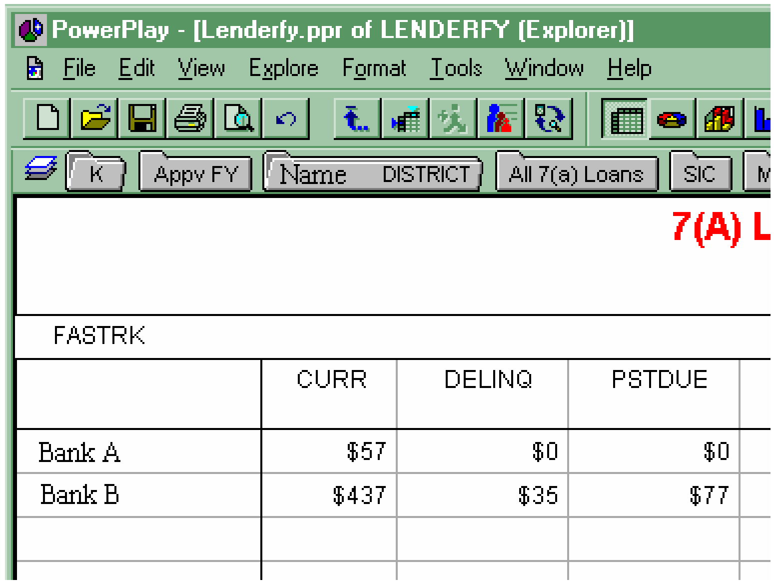
	CURR	DELINQ	PSTDUE	DEFERD	LIQUID	CHGOFF	P I F
A	/0	/0	/0	/0	/0	/0	/0
B	69.38%	8.13%	22.49%	0.00%	0.00%	0.00%	0.00%
C	74.17%	25.83%	0.00%	0.00%	0.00%	0.00%	0.00%
D	/0	/0	/0	/0	/0	/0	/0

Rows marked A and D contain zeros all across the row. This means that there are no lenders with names beginning with A or D in this region. To shrink the view so we only see the alphabetical files for lenders in the region, we need to suppress the zeros. To do this, Click on Explore and then Suppress Zeros. The following should appear.



	CURR	DELINQ	PSTDUE	LIQUID
B	$290	$34	$94	$0
C	$2,598	$905	$0	$0
K	$494	$35	$77	$0
P	$0	$35	$0	$0
W	$47	$0	$34	$17

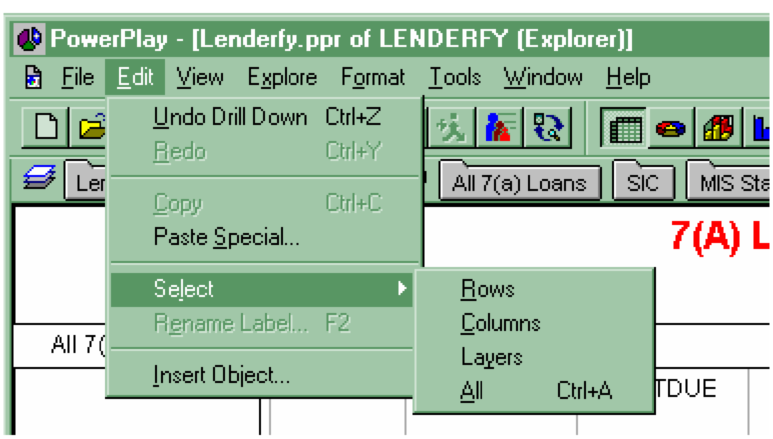
Only the letters of the alphabet with lenders beginning with that letter appear. Also, categories that would only show zero, such as Charge Offs (This will always be the case when looking at Outstanding Balance), also disappear. If we now double click a letter, such as K, the lenders will appear.



From this point, the field office will be able to change measures to look at bank purchases, disbursements, and the other measures. If the field office wanted to see what SIC code these loans were made in, the bank could double click on the particular lender, and then drag the SIC file on top of the lender. For this model, the key is to practice working with the model. Pay attention to the gray files. These indicate the level at which you are working. There are many more features to this tool that are not explained here. Please use the same contact information above for questions regarding the tool.

3) Exporting to Excel

Because we are still experiencing problems with lender linking, many of the field offices may find that there are lenders within their districts that have multiple FIRS # and are in reality the same bank branch. PowerPlay cannot roll these lenders together efficiently. In effect, it is possible that one bank branch with two or more FIRS #s may have very strong performance on one FIRS # and poor performance on another FIRS #. In order to determine the performance of the bank, you will need to combine those banks where you know they are absolutely the same. This can be done manually by summing the columns for each bank. Then you will need to recalculate the performance measure based on the formulas given in the definition section. However, in order to look at the banks in this fashion, you may export the information to Excel. The following figure will help illustrate these steps.



Make sure that the information you wish to export is visible on your screen. Select Edit and scroll down to Select. Another drop down box appears. If you want to capture multiple layers, select all, otherwise select layer and only the current layer should copy. Select Edit again and this time select copy. This will copy everything you have selected. Open Excel and Select Edit Paste. This takes a few seconds to paste all of the information.

Sometimes when you copy and paste from Powerplay to Excel, multiple layer information will appear on the say sheet. Each layer will be preceded by the layer title. If this should happen, you can either exclude the layers not needed, or select the cells containing the layer information, cut, and paste to a new worksheet. This will eliminate the problem of sorting through multiple layers of data. Once in Excel, you may manipulate the information in a variety of ways. I would suggest selecting Data, Filter, and Auto filter. This turns each column into a drop down menu. If you have trouble using the Excel or auto filter, contact the Office of Financial Assistance at (202) 205-6490.

These data models are very powerful and yield vast amounts of information. The more familiar you become with the models, the more information will be available to you on your specific lenders. These models will be updated once a month and your IRM will be responsible for making sure that the information is available in the field office.

ATTACHMENT B

Sample Lender Review Report

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: February 11, 1999 (within 3 weeks of review)

TO: Associate Administrator for Financial Assistance

THRU: My ADD/ED

FROM: Loan Review Team Leader

SUBJECT: Review of ABC Bank
FIRS #123456

Please find attached our review report of ABC Bank. They were scored at 76 percent, as "Generally in Compliance" and we have placed them in a 90-day corrective action period so we can assist them in development of procedures and policies to ensure greater consistency with SBA regulations.

Should you or your staff have any questions about this report, please contact me at (555)555-5555.

Lender Review Report
ABC Bank
(FIRS c123456)

SAMPLE

<u>February 25, 1999</u>

Section I: Processing/Forms/Eligibility/Credit

- In three of the five files reviewed, SBA Form 912 statements were found to be incomplete.

- In one of the five files reviewed, financial statements were not obtained, nor was a guaranty required for one 25 percent owner of the SBC.

- In one of the five files reviewed, the borrower noted a tax lien and indicated that the balance was $0.00, claiming that the lien had been retired. A credit report indicated a balance of $25,000 on the tax lien. There was no recorded comment of this discrepancy found in the lender's file, nor an explanation of the lender's basis for approving the loan in spite of this discrepancy.

Section II: Due Diligence/Authorization/Closing

- In one of the five files reviewed, there was one occurrence of borrower names not matching, the amount of the credit memo not matching the authorization and an unauthorized change to the loan authorization resulting in a $10,000 difference between the application and credit memo and the authorization.

- One of the five loans reviewed lacked a required loan guaranty.

- One of the five loans reviewed lacked a required list of personal assets valued over $500 taken as collateral.

- In one of the five files reviewed, the lender documented that a portion of loan proceeds was used to retire a portion of an outstanding debt to the IRS.

Section III: Servicing/Liquidation

- In one of the four files reviewed, the insurance requirements were not up to date.

- In two of four cases reviewed there were not current financial statements in file.

- In one of the four files reviewed, the lender exceeded its unilateral authority and released collateral without SBA's prior written approval.

Section IV: Oversight/Policy/Controls

- Overall the lender has good policies and procedures in place. Areas in need of improvement are in training and in submission of service provider contracts for approval to SBA.

Section V: Summary/Recommendations

- The lender passed four of the five portfolio performance benchmarks. The only benchmark not passed was "Currency Rate," and the lender was able to document that it was due to the late filing of 1502s due to an employee illness.
- The lender's credit analyses were incomplete. It appears that the lender made quick determinations of credit-worthiness and at times failed to substantiate the determination, inadequately documenting management ability, cash flow implications of re-financing, and the impact of new financing on working capital.
- The lender's loan file system is excellent! Materials were well organized, easy to find, and flawlessly tabbed. Their filing system was easy to navigate and included paperless backup (they are making the conversion to CD-ROM based files storage). Our office is nominating this lender (under separate cover) for a "Best Practices" award for their packaging and file-keeping methods.
- The lender must upgrade its loan closing procedures to ensure the proper submission of all required items. A checklist identifying these required items is strongly encouraged.
- The lender staff is in need of further training regarding SBA eligibility and process requirements.
- This lender's internal controls should be improved to ensure follow-up submission of insurance requirements and financial statements.
- The lender needs to develop policies and procedures to ensure that SBA pre-approves its contracts with lender service providers.

The lender's score of 76 percent places them in the low end of the "Generally in Compliance" scale, and our office has placed them in a 90-day corrective action period. The lender's action plan must detail the actions the lender will take to:

1) Provide (within 90-day period) training to its staff to ensure consistent credit analysis, collateral valuation, and eligibility determinations.
2) Document a process that ensures that new and existing employees receive training on a regular basis. SBA will assist in the training.
3) Improve its oversight of lender files to ensure that insurance requirements and financial statements are kept up to date.

While the lender is being placed in a 90-day corrective action period, it is only to improve consistency. Six of the loan files reviewed were excellent, and three reviewed were inconsistent and skewed the results of the review. ABC Bank has worked with SBA for several years and continues to be an asset to small businesses. We look forward to working with them to ensure that our combined efforts best serve the small business community.

SPECIAL NOTE:

In the course of completing this SBA lender review, the loan(s) associated with the SBA loan number(s) cited below were identified as having the following deficiencies which require a special review if a guaranty request is subsequently made:

SBA Loan No:	Nature of Deficiency(ies)
	(1)

SBA will note these loan deficiencies in its files, and a future purchase request involving these loans may include a further examination of these deficiencies.

Loan files drawn from the sample with deficiencies summarized in Sections I-III above, or noted in the Special Note section are identified in Appendix B.

Please note that SBA's failure to identify other deficiencies present in the above files does not constitute a waiver of any right or remedy it may seek under the SBA Act and the SBA Regulations, nor does it relieve your organization from compliance with all other provisions of the SBA Act and the SBA Regulations.

Appendix A

Summary of Lender Scoring

	Team Number					
	Team Leader is					
	Lender FIRs (Not Used)	PLP/PCLP	0	0%		
	01/00/00	LowDoc	0	0%		
	Version 1.00	7(a)/504	0	0%		
No	Question	Poss	Corr	Incc	Pct.	Required Comments
	Processing/Forms/Eligibility/Credit Analysis					
1	Is the SBA application form (Form 4, 1244,4L, Applicant Certification for *Express* loans, etc.) complete, signed and dated by the borrower?	0	0	0	N/A	
2	Is SBA Form 4-I (Lender's Application for Guaranty or Participation), 1244, or Form 4L complete, signed, and dated by the Lender?	0	0	0	N/A	
3	Are all required Form 912s (Statement of Personal History), or equivalent for *Express*, complete, signed and dated?	0	0	0	N/A	
4	Is SBA Form 1624 (Certification Regarding Debarment & Suspension), or equivalent, complete, signed and dated?	0	0	0	N/A	
5	Is SBA Form 1846 (Statement Regarding Lobbying) or equivalent, complete, signed and dated?	0	0	0	N/A	
6	Are personal financial statements present, complete signed and dated for all owners of 20% or more of the borrower, personal guarantors and others required?	0	0	0	N/A	
7	Are the required business financial statements present, complete, signed and dated?	0	0	0	N/A	
8	All application forms are dated prior to submission of application to the appropriate Loan Processing Center?	0	0	0	N/A	
9	Were size determinations correct and analyzed according to SBA policy (including affiliation determinations)?	0	0	0	N/A	
10	Did the loan file document that credit was not available elsewhere on reasonable terms?	0	0	0	N/A	
11	Was the personal resources test, applied and enforced according SBA policy?	0	0	0	N/A	
12	Was the nature of business of the small business concern eligible for SBA financing?	0	0	0	N/A	
13	Was the nature of business of the small business concern eligible for PLP/PCLP/*Express* processing?	0	0	0	N/A	
14	Was this loan to a US citizen or eligible non-citizen?	0	0	0	N/A	

15	Does the business activity associated with this SBA loan demonstrate that it is NOT to a borrower whose business is of a sexually prurient nature?	0	0	0	N/A	
16	Did the loan applicant(s) demonstrate no loss to the Government in all prior federal financial assistance received?	0	0	0	N/A	
17	If applicable, were eligible passive company rules enforced according to SBA policy?	0	0	0	N/A	
18	Was the purpose of the use of proceeds eligible?	0	0	0	N/A	
19	If the project involved the refinancing of existing debt, was SBA policy correctly applied regarding the eligibility of the debt refinanced?	0	0	0	N/A	
20	If the loan proceeds were used to acquire, build or renovate real property, did the loan meet SBA's policy requirements regarding occupancy percentage?	0	0	0	N/A	
21	If the loan involves a change of ownership was it eligible?	0	0	0	N/A	
22	If the loan is a piggyback loan, and is processed via PLP, is the first mortgage with another lender?	0	0	0	N/A	
23	If the loan finances real estate or is to a new business and is processed via PLP does it finance 90% or less of the project?	0	0	0	N/A	
24	If the loan involved a franchise, did the borrower have the power to control the franchise?	0	0	0	N/A	
25	Were you unable to detect any apparent conflict of interest related to the borrower on this loan?	0	0	0	N/A	
26	Were you unable to detect any apparent conflict of interest related to the lender on this loan?	0	0	0	N/A	
27	Did the new loan, coupled with any other outstanding SBA debt meet the allowable SBA loan program limit?	0	0	0	N/A	
28	Was the loan amount, percent of guaranty, maturity and interest of the loan consistent with SBA policy?	0	0	0	N/A	
29	Was repayment ability reasonably assured by historical cash flow or credible projections(or credit scoring for *Express*)?	0	0	0	N/A	
30	If outside resources were relied upon as the basis for repayment ability, was this documented properly?	0	0	0	N/A	
31	Was adequacy of working capital correctly determined?	0	0	0	N/A	
32	Was the adequacy of capitalization correctly determined?	0	0	0	N/A	

33	Was the management ability of the borrower analyzed consistent with SBA policy(or for *Express*, consistent with lender's non-government guaranteed loan policy)?	0	0	0	N/A	
34	Was the basis for collateral adequacy properly supported and calculated consistent with SBA policy(or for *Express*, consistent with lender's non-government guaranteed collateral requirements)?	0	0	0	N/A	
35	If the loan was under collateralized, was SBA policy followed for obtaining additional collateral, including personal guarantees as required?	0	0	0	N/A	
36	Was a credit investigation performed and documented in the loan officer's report?	0	0	0	N/A	
37	For any expedited process loan, is the information provided on the loan request form consistent with the information contained in the lender's loan application file?	0	0	0	N/A	
	Due Diligence/Authorization/Closing					
38	Was the borrower's identification and legal name consistent between the authorization and the lender's documents?	0	0	0	N/A	
39	If the authorization required guarantees, were they done according to SBA policy and the authorization?	0	0	0	N/A	
40	If required, was the borrower's injection verified (must verify for 504/Low Doc as coming from eligible sources)?	0	0	0	N/A	
41	Was the loan authorization constructed in accordance with the loan approval?	0	0	0	N/A	
42	Was the signature of the lender on the authorization?	0	0	0	N/A	
43	Was the correct version of the loan authorization used and were any amendments to the boilerplate approved by SBA (or for *Express* was the SBA*Express* Loan Authorization, current version used)?	0	0	0	N/A	
44	If SBA's guaranty funded a construction loan were the proper construction requirements specified in the authorization and met?	0	0	0	N/A	
45	Do the terms of the Note match the authorization?	0	0	0	N/A	
46	Does the Note have the proper signatures?	0	0	0	N/A	
47	Do the lien instruments, including but not limited to Deed(s) of Trust or Mortgage(s), have the proper signatures?	0	0	0	N/A	
48	For real estate collateral, is SBA in the appropriate, perfected lien position?	0	0	0	N/A	
49	If personal property was taken as collateral, is SBA in the proper, perfected lien position?	0	0	0	N/A	

50	If personal property was taken as collateral, was there an itemized list of personal property over $500, taken as collateral? (Applicable after 6/98)	0	0	0	N/A	
51	If the authorization required an appraisal was it obtained and did it meet the conditions of the authorization?	0	0	0	N/A	
52	Were insurance requirements specified in and met according to the authorization?	0	0	0	N/A	
53	Did the loan file document verification of financial statement data including any required IRS tax verification of income prior to disbursement?	0	0	0	N/A	
54	Are all applicable SBA Form 159 (Compensation Agreement) statements complete, signed and dated?	0	0	0	N/A	
55	Was the SBA Form 1050 Settlement Sheet or (504) Servicing Agent Agreement completed correctly and in accordance with the authorization?	0	0	0	N/A	
56	If a 7(a) loan, was the guaranty fee paid, in the correct amount and submitted within the proper time-frame?	0	0	0	N/A	
57	If required, were any standby agreements signed properly and in order?	0	0	0	N/A	
	Servicing/Liquidation					
58	Were the insurance requirements up to date?	0	0	0	N/A	
59	Were the financial statements current or can the lender document efforts to secure timely financial statements?	0	0	0	N/A	
60	Were servicing and liquidation actions for this loan properly documented, supported and within the scope of the lender’s unilateral authority? (If unilateral authority taken)	0	0	0	N/A	
61	Did the lender have prior written SBA approval for actions outside the scope of the lender's unilateral authority?	0	0	0	N/A	
62	Did SBA receive proper notification of all servicing/liquidation actions taken as required?	0	0	0	N/A	
63	If a liquidation case, was the liquidation plan, including the risk management form developed and submitted in a timely basis? (Defined by program. For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
64	If a liquidation case, were litigation legal fees pre-approved by the field office? (For 504 answer N/A unless CDC in Liquidation Pilot).	0	0	0	N/A	
65	If the loan was purchased, were the fees submitted by the lender for liquidation/servicing customary and reasonable? (For 504 answer N/A unless CDC in Liquidation Pilot).	0	0	0	N/A	

66	If a liquidation case, were status reports submitted on a timely basis as required? (For 504 answer N/A unless CDC in Liquidation Pilot).	0	0	0	N/A	
67	If a liquidation case, were alternatives explored to avoid the acquisition of collateral? (If alternatives are documented, you MUST answer YES even if the title was acquired). (For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
68	If a liquidation case, were current appraisals used by the lender to evaluate collateral? (For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
69	If a liquidation case where title of property was taken, was an environmental review done prior to the acquisition of title? (For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
70	If a liquidation case, did the file reflect that workout attempts were explored where possible prior to commencement of liquidation? (For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
71	If a liquidation case, did the lender pursue recovery from guarantors/obligors? (For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
72	If a completed liquidation case, was the wrap-up submitted within the time frame to SBA? (For 504 answer N/A unless CDC in Liquidation Pilot).	0	0	0	N/A	
73	If a liquidation case, did the lender receive prior written approval for actions outside the scope of unilateral authority? (For 504 answer N/A unless CDC in Liquidation Pilot).	0	0	0	N/A	
74	If a liquidation case, were required site visits performed in a timely manner? (For 504 answer N/A unless CDC in Liquidation Pilot)	0	0	0	N/A	
75	If a liquidation case where there has been a purchase, have any funds collected been remitted to SBA in a timely fashion? (For 504 answer N/A unless CDC in Liquidation Pilot).	0	0	0	N/A	
	Oversight/Policy/Controls					
76	Does the lender have a <u>written</u> statement of policy?	0	0	0	N/A	
77	Does the lender have a <u>written</u> commitment to make loans to all qualified applicants regardless of race, creed, nationality, or gender?	0	0	0	N/A	
78	Does the lender have a normal geographic lending area and does the lender document under what circumstances they may provide lending outside this area?	0	0	0	N/A	
79	Does the lender have a <u>written</u> policy of lending authority delegations?	0	0	0	N/A	

80	Does the lender's written policy describe the fees that may be charged to the borrower?	0	0	0	N/A	
81	Does the lender have a written policy for their portfolio review process?	0	0	0	N/A	
82	Does the lender's written policy outline what collection actions may be taken against borrowers who do not make timely payments.	0	0	0	N/A	
83	Did the lender document its procedure to ensure that loans are approved and authorizations signed by officers with the appropriate authority?	0	0	0	N/A	
84	Did the lender document its procedure to assure that required closing documents are obtained? (If the lender makes loans in more than one state, the procedure must include allowances for state variations in the required documents).	0	0	0	N/A	
85	Did the lender document its procedure for ensuring that items required after closing are collected?	0	0	0	N/A	
86	Did the lender document its method of safeguarding collateral documents in the lender's care?	0	0	0	N/A	
87	Does the lender maintain a schedule of any field visits required and document loan files when visits are completed?	0	0	0	N/A	
88	Does the lender have a process for updating UCC filings, financial statements and insurance requirements? (Tickler system, etc.)	0	0	0	N/A	
89	Does the lender have access to counsel available for processing, closing and servicing advice? (If the lender lends in more than one state, the lender must have access to counsel in each state).	0	0	0	N/A	
90	Did the lender document that it has the resources available for proper servicing and liquidation (if applicable) throughout the geographic area in which the lender makes loans?	0	0	0	N/A	
91	Does the lender document its process to setup regular reviews of seriously delinquent loans?	0	0	0	N/A	
92	Does the lender maintain its loan files in an orderly and accessible manner?	0	0	0	N/A	
93	Is the lender's written policy consistent with SBA policy?	0	0	0	N/A	
94	Does the lender have a marketing plan to utilize and promote SBA loans?	0	0	0	N/A	
95	Does the lender have a marketing plan to reach New Markets?	0	0	0	N/A	
96	Did the lender originate the minimum number of SBA loans necessary for program participation?	0	0	0	N/A	

97	Did the lender document its procedures to ensure that required forms are with their SBA applications?	0	0	0	N/A	
98	Did the lender document its procedure to ensure that SBA credit and eligibility requirements are complied with? (As evidenced by training manual(s), checklist(s), review procedures, etc.).	0	0	0	N/A	
99	Did the field office pre-approve any contracts the lender has with service providers?	0	0	0	N/A	
100	Did the lender document its procedure for ensuring that only allowable fees are charged to the borrower?	0	0	0	N/A	
101	Did the lender document its process for ensuring routine portfolio reviews and borrower contact on SBA loans?	0	0	0	N/A	
102	Did the lender document its process for ensuring timely filing of Lender Status Reports and the correction of submission errors?	0	0	0	N/A	
103	Does the lender have a process to ensure proper reporting to SBA of servicing/liquidation actions taken?	0	0	0	N/A	
104	Does the lender document the number of jobs created/retained two years its CDC loans are disbursed?	0	0	0	N/A	
105	Did the lender document its training procedure for staff involved in SBA financing?	0	0	0	N/A	
	FINAL SCORE				N/A	N/A
	ESTIMATED FINANCIAL RISK					0.00
	ESTIMATED FINANCIAL RISK COMMENTS					
	CURRENCY RATE				0.00	
	DELINQUENCY RATE				0.00	
	LOSS RATE				0.00	
	LIQUIDATION RATE				0.00	
	PURCHASE RATE				0.00	

Appendix B

Name of Lender: ________________________________

Date of Lender Review Report: ________________________________

List of All Noted Loan Deficiencies Found in Review Sample

Loan Number	Nature of Loan Deficiency

ATTACHMENT C

Sample Lender Action Plan

SBA Preferred Lender

ABC BANK OF ARIZONA

SBA Loan Division
1234 Central Avenue, Phoenix, AZ 85555

Date

Jane L. Review
District Director
U.S. Small Business Administration
98765 Washington Street
Anywhere, USA 99999

Re: Lender Review completed 12-29-98
90-Day Corrective Action Plan

Dear Ms. Review:

In response to the findings of the SBA Lender Review Team, we acknowledge our "Generally In-Compliance" rating and submit this ***90-Day Corrective Action Plan*** for review, verification, and approval. I have designated Mr. Ron Brown, Senior Vice President, as your point-of-contact during your follow up inspection scheduled for January 23, 1999, at 10:00 AM in our Corporate Offices. Ron can be reached at (602) 640-2299 and e-mail at ron.brown@abc.bank.com.

During the afternoon portion of your follow-up visit, our SBA Manager, Doug Doolittle, other senior bank managers, and I will meet with you to discuss the “Lender Oversight” exceptions. We will also elaborate on our internal changes we have instituted which include the hiring of additional staff, bank policy changes, and the scheduling of specialized SBA training.

The following actions have already been introduced by our management to correct those deficiencies cited during the review:

1. Processing

A. Forms: No issues noted.
B. Eligibility: No issues noted.
C. Credit Analysis: Question 26: Was the Capital injection adequate? 2 of 37 cases excepted.

- **Lender Response**: As explained during the *Exit Interview*, we would perform a thorough secondary review to determine if the amount documented in these cases meets Bank Policy Guidelines and/or SBA Policy. This review determined the amounts were not acceptable and we accept this as an oversight on our part. We do disagree with the amount of "Potential Risk" and feel the amount should be $787,300 rather than $1.3 million. This is based on other offsetting credit factors of the case that, in our opinion, would mitigate the lack of proper injection required by any prudent lender. These factors have been summarized in a Case Review Report prepared for each loan file and available for discussion by your follow-up team.

- **Corrective Action**: We have added a new section to our Bank Policy Guidelines for Injection Amounts and will be available for your review. Additionally, I have instructed SBA Manager, Doug Doolittle, to make contact with Jim Jones, ADD/Economic Development to develop a two-hour in-house training seminar for all bank marketing and loan personnel on the new policy and the corresponding credit impact of adequate investment by borrowers. I believe these steps will prevent future occurrences.

2. Due Diligence/Authorization/Closing

Question 7: Did The Note Have Proper Signatures And Appear In Order? 6 of 37 cases reviewed.

- **Lender Response**: As explained during the *Exit Interview*, we believe this to be a clerical oversight on our part. Our staff found the missing documents. They appear to have been filed with other escrow paperwork. After the audit, the documents were associated with the proper Collateral files and available for your follow-up review. We agree on the amount of "Potential Risk."

- **Corrective Action**: We have developed a new checklist at closing to insure all mortgage documents, after recording with the County Clerk, are associated with the correct SBA Collateral Document File. I have instructed SBA Manager, Doug Doolittle, to develop a one-hour in-house training course for all file clerks to insure the documents are filed correctly. Additionally, we found our Document Department to be under-staffed and will add two more technical positions in the coming months. I believe these steps will prevent future occurrences.

3. Servicing/Liquidation

No issues noted

4. Oversight

A. Lender Loan Policies:

No issues noted

B. Lender Internal Controls:

Question 77: Is the Lender's written Policy consistent with SBA?

- **Lender Response**: We believe this has been answered in Question 26 (Report 1.C.) above.

- **Corrective Action**: Please see Question 26 (Report 1.C.) above. Our Bank Policy concerning SBA lending now mirrors SBA Investment Adequacy Policy found in SOP 50-10-4, page 86. I believe this and other oversight steps will prevent future occurrences.

We thank the SBA Review Team for their thoroughness and believe these reviews are critical to the success of SBA Lending. It is also considered a very important tool for senior bank management when evaluating the performance of our SBA Loan Department in relation to SBA's standards.

Should you have any questions, suggestions or thoughts please call me at (602) 640-2361. If not, we look forward to seeing your follow-up team on January 23, 1999.

Sincerely,

Robert K. Moneybucks
President
ABC BANK OF ARIZONA

CC: Ron Brown, Senior Vice President
Doug Doolittle, SBA Loan Manager
File

ATTACHMENT D

Lender Review Elements

LENDER REVIEW ELEMENTS

	Processing/Forms/Eligibility/ Credit Analysis

1	Is the SBA application form (Form 4, 1244,4L, Applicant Certification only for *Express* loans, etc.) complete, signed and dated by the borrower?
2	Is SBA Form 4-I (Lender's Application for Guaranty or Participation), 1244, 4L or complete, signed, and dated by the Lender?
3	Are all required Form 912s (Statement of Personal History), or equivalent for *Express*, complete, signed and dated?
4	Is SBA Form 1624 (Certification Regarding Debarment & Suspension), or equivalent, complete, signed and dated?
5	Is SBA Form 1846 (Statement Regarding Lobbying) or equivalent, complete, signed and dated?
6	Are personal financial statements present, complete signed and dated for all owners of 20% or more of the borrower, personal guarantors and others required?
7	Are the required business financial statements present, complete, signed and dated?
8	All application forms are dated prior to submission of application to the appropriate Loan Processing Center?
9	Were size determinations correct and analyzed according to SBA policy (including affiliation determinations)?
10	Did the loan file document that credit was not available elsewhere on reasonable terms?
11	Was the personal resources test, applied and enforced according SBA policy?
12	Was the nature of business of the small business concern eligible for SBA financing?
13	Was the nature of business of the small business concern eligible for PLP/PCLP/*Express* processing?
14	Was this loan to a US citizen or eligible non-citizen?
15	Does the business activity associated with the SBA loan demonstrate that it is NOT of a sexually prurient nature?
16	Did the loan applicant(s) demonstrate no loss to the Government in all prior receipt of federal financial assistance?
17	If applicable, were eligible passive company rules enforced according to SBA policy?
18	Was the purpose of the use of proceeds eligible?
19	If the project involved the refinancing of existing debt, was SBA policy correctly applied regarding the eligibility of the debt refinanced?

20	If the loan proceeds were used to acquire, build or renovate real property, did the loan meet SBA's policy requirements regarding occupancy percentage?
21	If the loan involves a change of ownership was it eligible?
22	If the loan is a piggyback loan, is processed via PLP, is the first mortgage with another lender?
23	If the loan finances real estate or is to a new business and is processed via PLP does it finance 90% or less of the project?
24	If the loan involved a franchise, does the borrower have the power to control the franchise?
25	Were you unable to detect any apparent conflict of interest related to the borrower on this loan?
26	Were you unable to detect any apparent conflict of interest related to the lender on this loan?
27	Did the new loan, coupled with any other outstanding SBA loans, meet the allowable loan program limits?
28	Was the loan amount, guaranty percentage, maturity and interest rate of the loan consistent with SBA policy?
29	Was repayment ability reasonably assured by historical cash flow or credible projections (or credit scoring for *Express*)?
30	If outside resources were relied upon as the basis for repayment ability, was this documented properly?
31	Was adequacy of working capital correctly determined?
32	Was the adequacy of capitalization correctly determined?
33	Was the management ability of the borrower analyzed consistent with SBA policy (or for *Express,* consistent with lender's non-government guaranteed loan policy)?
34	Was the basis for collateral adequacy properly supported and calculated consistent with SBA policy? (or for *Express*, consistent with lender's non-government guaranteed collateral requirements?)
35	If the loan was under collateralized, was SBA policy followed for obtaining additional collateral, including personal guarantees as required?
36	Was a credit investigation performed and documented in the loan officer's report?
37	For any expedited process loan, is the information provided on the loan request form consistent with the information contained in the lender's loan application file?
	Due Diligence/Authorization/Closing
38	Was the borrower's identification and legal name consistent between the authorization and the lender's documents?

39	If the authorization required guarantees, were they done according to SBA policy and the authorization?
40	If required, was the borrower's injection verified (must verify for 504/Low Doc as coming from eligible sources)?
41	Was the loan authorization constructed in accordance with the loan approval?
42	Was the signature of the lender on the authorization?
43	Was the correct version of the loan authorization used and were any amendments to the boilerplate approved by SBA (or for *Express* was the SBA*Express* Loan Authorization, current version used)?
44	If SBA's guaranty funded a construction loan were the proper construction requirements specified in the authorization and met?
45	Do the terms of the Note match the authorization?
46	Does the Note have the proper signatures?
47	Do the lien instruments, including but not limited to Deed(s) of Trust or Mortgage(s), have the proper signatures?
48	For real estate collateral, is SBA in the appropriate, perfected lien position?
49	If personal property was taken as collateral, is SBA in the proper, perfected lien position?
50	If personal property was taken as collateral, was there an itemized list of personal property over $500, taken as collateral? (Applicable after 6/98).
51	If the authorization required an appraisal was it obtained and did it meet the conditions of the authorization?
52	Were insurance requirements specified in and met according to the authorization?
53	Did the loan file document verification of financial statement data including any required IRS tax verification of income prior to disbursement?
54	Are all applicable SBA Form 159 (Compensation Agreement) statements complete, signed and dated?
55	Was the SBA Form 1050 Settlement Sheet or (504) Servicing Agent Agreement completed correctly and in accordance with the authorization?
56	If a 7(a) loan, was the guaranty fee paid, in the correct amount and submitted within the proper time-frame?
57	If required, were any standby agreements signed properly and in order?
	Servicing/Liquidation
58	Were the insurance requirements up to date?
59	Were the financial statements current or can the lender document efforts to secure timely financial statements?

60	Were servicing and liquidation actions for this loan properly documented, supported and within the scope of the lender's unilateral authority? (If unilateral authority taken).
61	Did the lender have prior wirtten SBA approval for servicing actions outside the scope of the lender's unilateral authority?
62	Did SBA receive proper notification of all servicing/liquidation actions taken as required?
63	If a liquidation case, was the liquidation plan, including the risk management form developed and submitted in a timely basis? (Defined by program. For 504 answer N/A unless CDC in Liquidation Pilot).
64	If a liquidation case, were litigation legal fees pre-approved by the field office? (For 504 answer N/A unless CDC in Liquidation Pilot).
65	If the loan was purchased, were the fees submitted by the lender for liquidation/servicing customary and reasonable? (For 504 answer N/A unless CDC in Liquidation Pilot).
66	If a liquidation case, were status reports submitted on a timely basis as required? (For 504 answer N/A unless CDC in Liquidation Pilot).
67	If a liquidation case, were alternatives explored to avoid the acquisition of collateral? (If alternatives are documented, you MUST answer YES even if the title was acquired). (For 504 answer N/A unless CDC in Liquidation Pilot).
68	If a liquidation case, were current appraisals used by the lender to evaluate collateral? (For 504 answer N/A unless CDC in Liquidation Pilot).
69	If a liquidation case where title of property was taken, was an environmental review done prior to the acquisition of title? (For 504 answer N/A unless CDC in Liquidation Pilot).
70	If a liquidation case, did the file reflect that workout attempts were explored where possible prior to commencement of liquidation? (For 504 answer N/A unless CDC in Liquidation Pilot)
71	If a liquidation case, did the lender pursue recovery from guarantors/obligors? (For 504 answer N/A unless CDC in Liquidation Pilot)
72	If a completed liquidation case, was the wrap-up submitted within the time frame to SBA? (For 504 answer N/A unless CDC in Liquidation Pilot).
73	If a liquidation case, did the lender receive prior written approval for actions outside the scope of unilateral authority? (For 504 answer N/A unless CDC in Liquidation Pilot).
74	If a liquidation case, were required site visits performed in a timely manner? (For 504 answer N/A unless CDC in Liquidation Pilot)
75	If a liquidation case where there has been a purchase, have any funds collected been remitted to SBA in a timely fashion? (For 504 answer N/A unless CDC in Liquidation Pilot).
	Oversight/Policy/Controls
76	Does the lender have a written statement of policy?
77	Does the lender have a written commitment to make loans to all qualified applicants regardless of race, creed, nationality, or gender?

78	Does the lender have a normal geographic lending area and does the lender document under what circumstances they may provide lending outside this area?
79	Does the lender have a written policy of lending authority delegations?
80	Does the lender's written policy describe the fees that may be charged to the borrower?
81	Does the lender have a written policy for their portfolio review process?
82	Does the lender's written policy outline what collection actions may be taken against borrowers who do not make timely payments.
83	Did the lender document its procedure to ensure that loans are approved and authorizations signed by officers with the appropriate authority?
84	Did the lender document its procedure to assure that required closing documents are obtained? (If the lender makes loans in more than one state, the procedure must include allowances for state variations in the required documents).
85	Did the lender document its procedure for ensuring that items required after closing are collected?
86	Did the lender document its method of safeguarding collateral documents in the lender's care?
87	Does the lender maintain a schedule of any field visits required and document loan files when visits are completed?
88	Does the lender have a process for updating UCC filings, financial statements and insurance requirements? (Tickler system, etc.)
89	Does the lender have access to counsel available for processing, closing and servicing advice? (If the lender lends in more than one state, the lender must have access to counsel in each state).
90	Did the lender document that it has the resources available for proper servicing and liquidation (if applicable) throughout the geographic area in which the lender makes loans?
91	Does the lender document its process to setup regular reviews of seriously delinquent loans?
92	Does the lender maintain its loan files in an orderly and accessible manner?
93	Is the lender's written policy consistent with SBA policy?
94	Does the lender have a marketing plan to utilize and promote SBA loans?
95	Does the lender have a marketing plan to reach New Markets?
96	Did the lender originate the minimum number of SBA loans necessary for program participation?
97	Did the lender document its procedures to ensure that required forms are with their SBA applications?
98	Did the lender document its procedure to ensure that SBA credit and eligibility requirements are complied with? (As evidenced by training manual(s), checklist(s), review procedures, etc.).
99	Did the field office pre-approve any contracts the lender has with service providers?

100	Did the lender document its procedure for ensuring that only allowable fees are charged to the borrower?
101	Did the lender document its process for ensuring routine portfolio reviews and borrower contact on SBA loans?
102	Did the lender document its process for ensuring timely filing of Lender Status Reports and the correction of submission errors?
103	Does the lender have a process to ensure proper reporting to SBA of servicing/liquidation actions taken?
104	Does the lender document the number of jobs created/retained two years its CDC loans are disbursed?
105	Did the lender document its training procedure for staff involved in SBA financing?

Attachment E
Sample Loan Deficiency Memo from Policy and Program Oversight Review

DATE:

TO: [Center Director, Commercial Loan Servicing Center] or
[District Director]

FROM: [SBA Review Team Leader]

SUBJECT: Identification of Loan File Deficiency

SBA Loan Number(s):

In the course of completing an SBA lender review, the loan(s) associated with the SBA loan number(s) cited above were identified as having the deficiency(ies) that require a special review if a subsequent request for guaranty purchase is made:

SBA Loan No:	Nature of Deficiency(ies)
	(1)

Please have a copy of this memorandum inserted in the servicing file of each loan identified for future reference.

This notice has been issued pursuant to Section VII.E. of the Loan Policy and Program Oversight Guide located in Appendix 30 of SOP 50 50 4 .