



SBA 7(a) PARRiS Benchmarks Overview

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U.S. Small Business Administration



SBA 7(a) PARRiS Benchmarks Overview

We would like to thank Adrianna Rockford for her time and providing information regarding her experience in working with SBA on lending from her perspective.

All opinions, conclusions, and/or recommendations expressed herein are those of the presenter and do not necessarily reflect the views of the SBA.



PARRiS Score Objectives

- Provide a risk framework for lenders with attribute benchmarks that
 - are fair, accurately measure lender risk, systematic, easy to understand, and on par with industry standards;
 - identify the underperforming lenders to assist SBA Office of Credit Risk Management (OCRM) in resource allocation;
 - and help lenders identify areas to improve and understand their target ranges and the metrics on which SBA will score their performance.



PARRiS Score Basics

- The PARRiS score is calculated from 15 benchmarks, which are classified into five categories.
 - **P**erformance, **A**sset Management, **R**egulatory Compliance, **R**isk Management and **S**pecial Items.
- Each of the 15 benchmarks is assigned a score.
 - The sum of all 15 benchmark scores equals the lender's overall PARRiS score.
 - The score will be periodically updated, with an overall score range of 15 - 75.
 - Six flags, which highlight *potential* lender risk, are not included in the PARRiS score calculation.

PARRiS Benchmarks (15)

- **Performance**
- **Asset Management**
- **Regulatory Compliance**
- **Risk Management**
- **Special Items**

PARRiS Flags (8)

- Loan Agent Count (Over the last 5 years)
- Industry Concentration Rate
- Franchise Rate
- Sold on Secondary Market Rate
- Acquired Loans Rate
- Loans > \$2 million (Over Last 12 Months)
- Early Default Rate
- Non-Acquired Growth Rate (2 years)



PARRiS Methodology

- One benchmark scorecard is established for all lenders.
- A “20/60/20” rule is used to establish the **higher risk (+5)**, **moderate risk (+3)**, and **lower risk(+1)** thresholds.
- The “lower risk” threshold uses the best 20th percentile of 2005 lender performance data.
 - 2005 was a period of time when the overall economy was stable and the 7(a) program was essentially subsidy neutral (net cash yields close to zero) and thus is the lower risk state of performance.
- The “higher risk” threshold is defined with the worst 20th percentile of current 2013 lender performance data.
- This approach enables SBA to encourage lenders to minimize risky behavior, while still taking into account the residual effects of the economic recession.
- The risk ranking methodology for the overall PARRiS score (e.g. score ranges considered “high”, “medium”, or “low” risk) is currently in the works.

PARRiS Benchmark Definitions: Performance



PARRiS Category	Attribute	Preferred (+ 1)	Acceptable (+ 3)	Less Than Acceptable (+ 5)	Description
Performance	5 Year Cumulative Net Yield	> 2%	≥ -3% AND ≤ 2%	< -3 %	<p>Numerator - (Annualized) Cumulative net cash flow, including purchase, recovery, origination and servicing fees</p> <p>Denominator - SBA's guarantee share of the gross balance averaged over the last 5 years</p>
	12 Month Default Rate	0%	> 0% AND ≤ 6%	> 6%	<p>Numerator - Default Amount over the last 12 months, defined by transfer to liquidation amount or gross purchase amount</p> <p>Denominator - Active Gross Balance due to regular servicing averaged over the last 12 months + the Default Amount over the last 12 months</p>
	5 Year Default Rate	0%	> 0% AND ≤ 5%	> 5%	<p>Numerator - (Annualized) Default Amount over the last 5 years, defined by transfer to liquidation amount or gross purchase amount</p> <p>Denominator - Active Gross Balance due to regular servicing averaged over last 5 years + Default Amount over last 5 years</p>

PARRiS Benchmark Definitions: Asset Management



PARRiS Category	Attribute	Preferred (+ 1)	Acceptable (+ 3)	Less Than Acceptable (+ 5)	Description
Asset Management	Stressed Rate	0%	> 0% AND ≤ 5%	> 5%	Numerator - Stressed (past due (31-59 days past due), deferred, delinquent (60 or more days past due)) balance Denominator - Active Gross Balance due to regular servicing
	Early Problem Loan Rate	0%	> 0% AND ≤ 2%	> 2%	Numerator - Active Gross Balance for young (mob ≤ 36) loans that have had either a deferred, delinquent (60 or more days past due), liquidated, purchased, or charged off status within 18 months of disbursement Denominator - Gross Approval Amount for young loans (mob ≤ 36)
	High Risk Origination Rate	< 7%	≥ 7% AND ≤ 18%	> 18%	Numerator - Gross Approval Amount for young (mob ≤ 36) risky (original SBPS < 160) loans* Denominator - Gross Approval Amount for young loans (mob ≤ 36)

PARRiS Benchmark Definitions: Regulatory Compliance



PARRiS Category	Attribute	Preferred (+1)	Acceptable (+3)	Less Than Acceptable (+5)	Description
Regulatory Compliance	1502 Reporting Rate	100%	≥ 94% AND < 100%	< 94%	Numerator - Number of active reporting loans Denominator - Total active loans in lender's SBA portfolio
	Loans in Default Status over 3 Years Rate	< 19%	≥ 19% AND ≤ 63%	> 63%	Numerator - Gross Balance of loans in active default status over 3 years Denominator - Gross Balance of all loans currently in active default
	24 Month Repair/Denial Rate	0%	> 0% AND ≤ 4%	> 4%	Numerator - Last 24 months repair, denial, or voluntary Purchase Amount Denominator - Gross SBA Purchase Amount

PARRiS Benchmark Definitions: Risk Management



Risk Management	FDIC Total Risk-Based Capital Ratio	≥ 10%	< 10% AND ≥ 8%	< 8%	FDIC Benchmark explanations and definitions can be found here: http://www.fdic.gov/regulations/safety/manual/section2-1_toc.html	
		(+ 1)		(+ 5)		Description
	Non-Performing Asset Ratio	< 100 %		≥100%		Nonperforming assets plus loans 90 or more days past due as a percent of tangible equity and reserves. This is commonly known as the Texas Ratio (FDIC).
	Lender Purchase Rating (formerly LRR)	1, 2	3	4, 5	A Lender Rating based on forecasted purchases for the next 12 months	

PARRiS Benchmark Definitions: Special Items



Special Items	Average SBPS (weighted)	> 203	≤ 203 AND ≥ 181	< 181	Average Small Business Portfolio Score weighted by Active Gross Balance
	Recovery Rate (Over last 5 years)	>63%	≥ 21% AND ≤ 63%	< 21%	<p>Numerator - Cumulative Recovery Amount (funds realized after purchase) for defaulted loans charged off or paid in full over the last 5 years</p> <p>Denominator - Cumulative Default Amount for loans charged off or paid in full over last 5 years</p>
	Public Corrective Action or No Prudential Regulator	(+ 1)		(+ 5)	Description
	No	No	Yes	The occurrence of a public corrective action plan or the lack of a Prudential Regulator	

PARRiS Benchmark Definitions: Flags



PARRIS RISK FLAGS	Flag
Loan Agent Count (Over Last 5 Years)	> 0
Early Default Rate	>= 1%
% Growth Rate, Non-Acquired (2 Years)	>= 25%
Franchise Concentration	> 10%
Sold on Secondary Market	>75%
Industry Concentration	> 20%
Acquired Loan Rate	> 25%
Loans > \$2 Million (Over Last 12 Months)	> 5

Description
Number of loans originated in past 5 years using an agent
Numerator - The gross balance at default of young loans (mob <= 36) that experienced a default event (liquidation or purchase) when mob <= 18 Denominator - Gross approval amount of all young loans (mob <= 36)
Numerator - The current non-acquired loans gross balance minus the current non-acquired loans gross balance two years ago Denominator - The current non-acquired loans gross balance two years ago
Numerator - Gross balance of Franchise Dollars Denominator -Gross Balance
Numerator -Gross Balance of loans sold on secondary market Denominator - Gross Balance
Numerator - Gross Industry Dollars of top industry concentration Denominator - Gross Balance
Numerator - Gross Balance of acquired loans Denominator - Gross Balance
Number of \$2M+ loans disbursed in the last 12 months

PARRiS on SBAONE



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PARRiS Scorecard 2014 SECOND QUARTER

VIEW ALL

PERFORMANCE

ASSET MANAGEMENT

REGULATORY COMPLIANCE

RISK MANAGEMENT

SPECIAL ITEMS

COMPARE WITH PEERS

SCORE RANGE

SCORE < 30 (Preferred)
 30 - 43 (Acceptable)
 44 - 75 (Less than Acceptable)

PARRiS Risk Categories		PARRiS Risk	Lender Rates	No. of Points
Performance	5 Year Cumulative Net Yield		-10.0%	5
	12 Month Default Rate		2.3%	3
	5 Year Default Rate		9.9%	5
Asset Management	Stressed Rate		1.8%	3
	Early Problem Loan Rate		0.8%	3
	High Risk Origination Rate		8.2%	3
Regulatory Compliance	1502 Reporting Rate		97.9%	3
	Loans in Active Default Status over 3 Years Rate		74.1%	5
	24 Month Repair/Denial Rate		7.1%	5
Risk Management	FDIC Total Risk-Based Rate (*)		1390.0%	1
	Non-Performing Asset Ratio		38.1	1
	Lender Risk Rating (to be replaced by LPR)		3	3
Special Items	Average SBPS (weighted)		186.0	3
	Recovery Rate (Over last 5 years)		0.2%	5
	Has Prudential Regulator (Preferred) / No Corrective Action Request (Preferred)		Preferred	1

Current Quarter
 History

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- Current Quarter
- History

- Lender Rates
- Number of Points

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Risk Categories	2014-Q1	2013-Q4	2013-Q3	2013-Q2
5 Year Cumulative Net Yield	-10.0%	-10.0%	-10.0%	-10.0%
12 Month Default Rate	2.3%	2.3%	2.3%	2.3%
5 Year Default Rate	9.9%	9.9%	9.9%	9.9%
Stressed Rate	1.8%	1.8%	1.8%	1.8%
Early Problem Loan Rate	0.8%	0.8%	0.8%	0.8%
High Risk Origination Rate	8.2%	8.2%	8.2%	8.2%
1502 Reporting Rate	97.9%	97.9%	97.9%	97.9%
Loans in Active Default Status over 3 Years Rate	74.1%	74.1%	74.1%	74.1%
24 Month Repair/Denial Rate	7.1%	7.1%	7.1%	7.1%
FDIC Total Risk-Based Rate (*)	1390.0%	1390.0%	1390.0%	1390.0%
Non-Performing Asset Ratio	38.1	38.1	38.1	38.1
Lender Risk Rating (to be replaced by LPR)	3	3	3	3
Average SBPS (weighted)	186.0	186.0	186.0	186.0
Recovery Rate (Over last 5 years)	0.2%	0.2%	0.2%	0.2%
Has Prudential Regulator (Preferred) / No Corrective Action Request	Preferred	Preferred	Preferred	Preferred



SBA WV District Office

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Or contact the Lender Relations Specialist from your local SBA District Office.