SBA Information Notice

TO: SBA Field and Center Employees, and the Office of Capital Access	**CONTROL NO.:** 5000-1137
SUBJECT: Announcement and FAQs on OCRM Lender Portal Update	**EFFECTIVE:** 12/23/2009

In order to increase transparency, the Small Business Administration's (SBA's) Office of Credit Risk Management is adding loan level credit quality data to its Lender Portal. Starting with the June 30th, 2009 quarterly update, the Lender Portal will now include for each 7(a) lender and 504 Certified Development Company (CDC), or ("SBA Lenders"), a list of all the lender's outstanding loans. The loans will be separated into high, medium, and low risk categories. The category a loan is placed in is based on the Small Business Portfolio Solutions (SBPS) credit score a loan receives. Each risk category – high, medium and low- contains a range of credit scores consistent with that level of risk. This information will assist SBA Lenders to proactively monitor, manage, and mitigate the risk in their SBA loan portfolios.

The attached list of frequently asked questions (FAQs) provides additional information about the Lender Portal, the new credit quality data available, and SBA's Loan and Lender Monitoring System (L/LMS).

For any questions, please contact Bryan Hooper, Director, Office of Credit Risk Management.

Eric R. Zarnikow
Associate Administrator for Capital Access

SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete
Must be accompanied by SBA Form 58

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FAQs for SBA Field Office, Centers, and Capital Access Employees; And SBA 7(a) and 504 Lending Partners

What is the Lender Portal?
The Lender Portal is the primary means through which SBA shares SBA lender performance information within SBA and with our 7(a) lenders and 504 Certified Development Company (CDC), or ("SBA Lenders"), lending partners.

How often is the Lender Portal updated?
The Lender Portal is updated quarterly, and includes the Lender Risk Rating, the Rating components, lender performance ratios, and lender credit quality ratios.

What information is in the Lender Portal?
In addition to individual SBA Lender data, there is corresponding peer group and SBA portfolio data for comparison. While SBA Lenders can view this data for their own portfolio, they are not able to view the individual Ratings and performance indicators for other SBA Lenders.

Is there trend information in the lender Portal?
The Lender Portal can be used for trending purposes, to view current quarterly data or the previous eight quarters of data.

For what purpose does SBA use the Lender Portal?
The Lender Portal is one component of the Office of Credit Risk Management's (OCRM) Loan and Lender Monitoring System (L/LMS). For more information on the Lender Portal, please see the "SBA Lender Risk Rating System" Final Notice published in the Federal Register at
http://www.sba.gov/idc/groups/public/documents/sba_program_office/olo_notice.pdf

What is the Loan and Lender Monitoring System (L/LMS)?
L/LMS is OCRM's primary system for off-site monitoring/review and portfolio analysis of SBA Lenders. L/LMS is also used by OCRM in on-site reviews, delegated authority determinations, various performance and portfolio reports, and other OCRM risk management functions. L/LMS imports data on a monthly and quarterly basis.

Does a lender need to provide additional information to the SBA?
No. L/LMS does not require any additional information from SBA Lenders or borrowers.

Does L/LMS work?
Each month, L/LMS imports SBA data on new loan approvals and SBA performance data on over 350,000 outstanding 7(a) and 504 loans as reported by SBA Lenders. Quarterly, L/LMS imports Small Business Portfolio Solution (SBPS) credit scores (an off-the-shelf product produced by FICO and Dun & Bradstreet) using Dun & Bradstreet commercial and TransUnion consumer credit bureau data for all the disbursed and outstanding 7(a) and 504 loans. Like consumer credit bureaus, Dun and Bradstreet commercial credit bureau uses business data reported by third parties, such as vendors, utilities and insurance companies. The consumer credit

bureau information is gathered on the principals and/or guarantors of the small business. The SBPS credit score produced by FICO is specific to small businesses.

How often does L/LMS produce SBA Lender Risk Ratings (LRR)?
Quarterly, L/LMS produces SBA LRR on over 4,500 active 7(a) and 504 lenders. This is a custom score, at the lender level, which uses both SBA lender performance ratios and SBPS credit score ratios. The LRR reflects the risk associated with the lender's portfolio of SBA loans.

Can a SBA LLR be override?
Certain factors may trigger an override of the calculated LRR to more accurately reflect the risk associated with an SBA Lender's loan portfolio. For more details on the LRR and overrides, see the web address above for SBA's Final Notice for the "SBA Lender Risk Rating System" published in the Federal Register.

How often are SBA LLR and the SBPS credit score validated?
The calculated SBA LRR and the SBPS credit scores are annually validated to verify that they remain predictive leading indictors of credit risk.

What effect do SBPS credit scores have on borrowers?
SBPS credit scores are essentially 'soft hits' on the borrower's credit bureau reports. That means they can only be seen by the borrower, and they do not affect the borrower's personal credit score. These 'soft hits' are summarized on the credit bureau reports, but only in the copy that can be viewed by the borrower or owner/guarantor. No other entity that pulls a credit bureau report will see this list of 'soft hits' listed.

What improvements are being provided in the Lender Portal?
First: Beginning with the June 30th, 2009 quarterly update, the Lender Portal will include for each SBA Lender a list of all outstanding loans (disbursed and not yet purchased or paid-in-full), identified by an SBA loan number. The loans will be separated into high, medium, and low risk credit categories based upon the SBPS credit score for each loan. The high/medium/low risk loan data is summarized to correspond to the high/medium/low summary information in the 'SBPS Score Breakdown' section of the Lender Portal. Loans on the list marked '999' were not able to be scored.

Second: In order to improve the predictiveness of the SBPS loan credit scores, as of June 30th, 2009, SBA upgraded from SBPS version 5 to version 6. SBPS version 6 is the newest in the normal periodic redevelopments and improvements to SBPS by FICO and Dun & Bradstreet.

How is high, medium, and low credit risk determined?
Dun and Bradstreet gathers the credit quality data for all SBA loans. An analysis is then performed to develop three credit score ranges: high risk (lower score range loans), medium risk (middle score range loans), and low risk (high score range loans). The credit score ranges use natural breaks in the data to maximize the differences between purchase ratios among the three groups (high, medium, low).

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What are the odds of a loan being purchased?
The odds of purchase increase as the SBPS drops and decreases as the SBPS rises. Therefore, the probability of purchase for medium risk loans will be several times higher, on average, than the probability of purchase for low risk loans and several times lower on average, than the probability of purchase for high risk loans. These credit risk range determinations are performed separately for the 7(a) and 504 programs.

Is the SBPS predictable?
The SBPS cannot predict for certain if an individual loan will purchase or become delinquent; however, SBPS has been demonstrated to accurately predict the relative probability of purchase and delinquency between groups of loans.

What do you need to do to view the new information?
If a lending partner or SBA office is currently using the Lender Portal, the improvements can be viewed automatically with the June 30th, 2009 quarterly update. Lending partners that do not have access to the Lender Portal are strongly encouraged to apply for access so they may begin using the Lender Portal to assist in managing their SBA portfolio risk.

Who may apply for access to the Lender Portal and how?
Currently over 800 7(a) lenders and 504 CDC partners have received access to the Lender Portal. A 7(a) lender or CDC is eligible for Lender Portal access provided they have at least one 7(a) or 504 loan outstanding (disbursed but not purchased or paid-in-full). Lending partners may request access to the system by following the application procedures outlined in the Lender Portal log-in page: https://pdp.dnb.com/pdpsba/pdplogin.asp. The application process is comprehensive to maximize the security and confidentiality of Portal data. Only one access per SBA Lender is granted.

Who is responsible for securing the Lender information?
Once access is granted, information security becomes the responsibility of the SBA Lender. Accordingly, the SBA lender must timely notify OCRM if an employee or former employee must be terminated from Lender Portal access. To check on the status of an application for access to the Lender Portal or to notify SBA of any change in access authorization please contact Ehsan Rahman of OCRM at (202) 205-7610.

Can an SBA District Office employee request access to the Lender Portal?
An SBA District Office employee can request access to the Lender Portal by having his/her District Director forward a request to David Kimble of the Office of Field Operations. An SBA Center or Headquarters Capital Access employee can request access to the Lender Portal by having his/her Center or Office Director forward a request to Stephen Kucharski of the Office of Financial Assistance. In order to provide maximum system security, Office Directors must notify OCRM if an employee leaves or must otherwise be removed from Lender Portal access. For security and logistical reasons, SBA has limited the number of users per office.

Are the individual lender Portal users responsible for security?
Yes. Please be advised that Lender Portal users must take responsibility for protecting the confidentiality of the user password and for ensuring the security of the data. For more information on Lender Portal confidentiality, see 13 CFR 120.1060.

What additional information and resources are there?
Additional information on L/LMS and the Lender Portal (general info, prior enhancements, definitions, data, etc.) can be found on OCRM's public SBA web page: http://www.sba.gov/aboutsba/sbaprograms/olo/index.html.   On this web page you will also find additional information on OCRM (formally the Office of Lender Oversight), including the Lender Oversight Program Interim Final Rule, SOP 5100 for on-site reviews/examinations, etc.

What does the future hold?
L/LMS is currently under regular periodic redevelopment. This type of regular periodic redevelopment is customary to ensure L/LMS remains current and predictive as technologies and available data evolve. In addition, OCRM seeks to continue to add features and helpful lender oversight and credit risk management data to the Lender Portal. We may also refine underlying formulas. As these developments are implemented, SBA will provide further notification.