

# **504 Quarterly Connect Call**

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Office of Capital Access

June 7, 2017

# Agenda

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Bill Manger – Welcome, Loan Activity

Stephen Kucharski- OPSM Updates

Dianna Seaborn – OFA Updates

Linda Rusche- OCRM Updates

Susan Streich – OFPO Updates

Chris Webb – OEO Updates



# Office of Performance Management Systems

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Stephen Kucharski, Director



# Office of Capital Access

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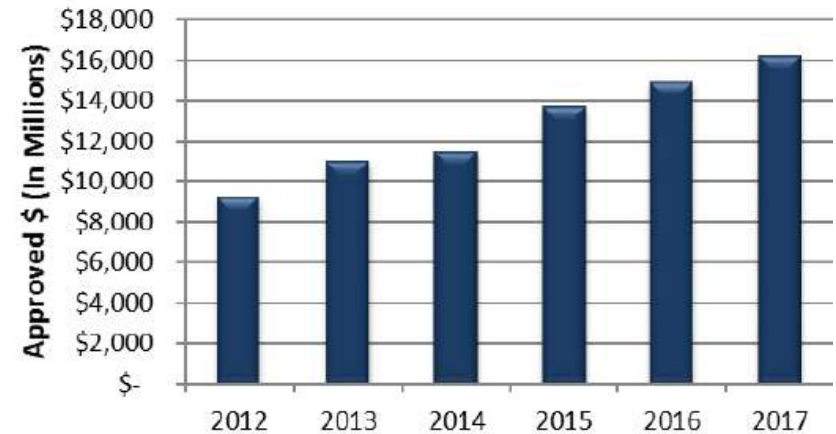
William Manger, Associate Administrator



# Year to Date 7(a) and 504

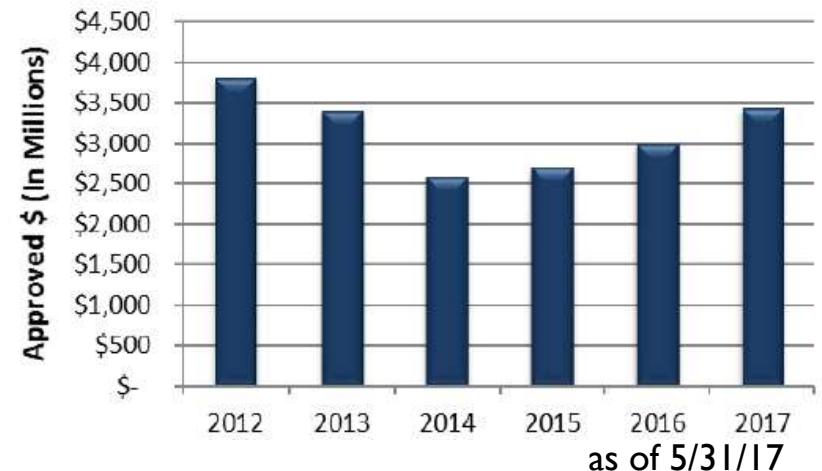
## 7(a) Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2017	39,681	\$ 16,272,810,100
2016	41,351	\$ 14,987,669,843
2015	38,539	\$ 13,742,268,900
2014	31,958	\$ 11,471,144,100
2013	29,576	\$ 11,058,312,000
2012	28,793	\$ 9,281,278,700



## 504 Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2017	4,210	\$ 3,440,267,000
2016	3,740	\$ 2,998,422,000
2015	3,744	\$ 2,710,619,000
2014	3,707	\$ 2,587,747,000
2013	5,024	\$ 3,395,232,000
2012	5,620	\$ 3,811,474,000

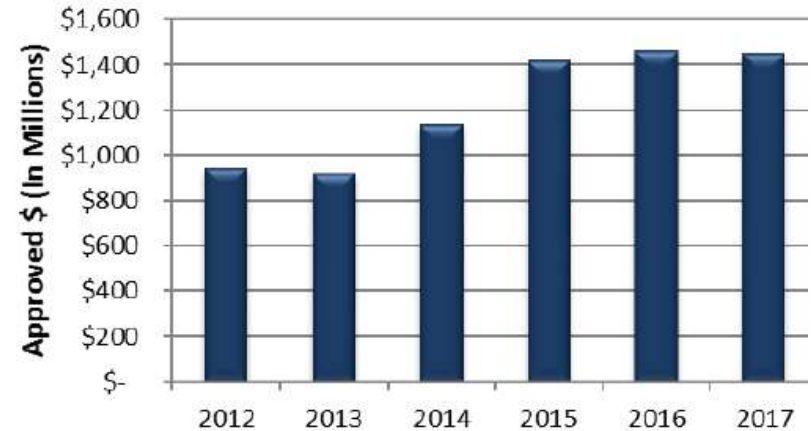


# Year to Date – 7(a) Small Dollar Loans

## Up to \$150k Lending Activity

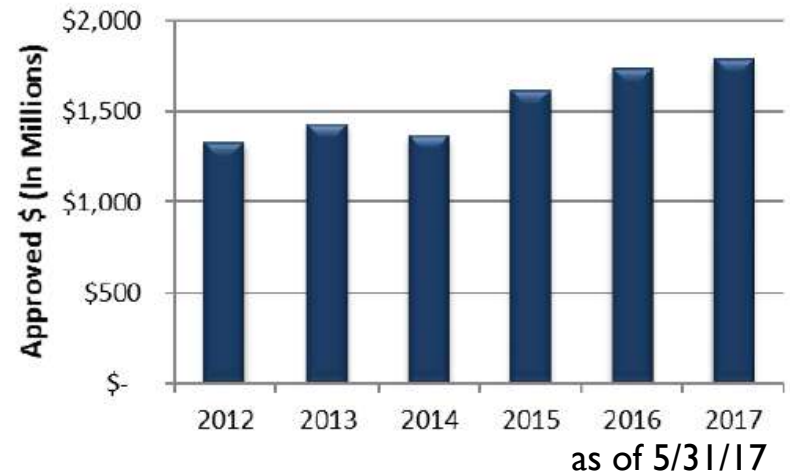
Fiscal Year	Approved Loans	Approved Dollars
2017	22,453	\$ 1,448,367,800
2016	25,059	\$ 1,464,930,943
2015	23,305	\$ 1,418,067,800
2014	18,977	\$ 1,134,254,800
2013	16,208	\$ 920,448,400
2012	17,071	\$ 946,487,700

• Borrower fee relief for FY 2017 stands at \$16.2M.



## \$150k to \$350k Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2017	6,774	\$ 1,787,071,900
2016	6,575	\$ 1,737,954,000
2015	6,230	\$ 1,612,438,100
2014	5,303	\$ 1,368,365,200
2013	5,647	\$ 1,426,212,100
2012	5,252	\$ 1,324,747,400



as of 5/31/17

# Office of Financial Assistance

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Dianna Seaborn, Director



# OFA Updates

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- ▶ SOP 50 10 5(J) Progress
- ▶ Franchise
  - ▶ On-demand training available on NADCO website
- ▶ 504 Debt Refi
  - ▶ What's working?
  - ▶ Recommendations for improvement?
- ▶ New forms
  - ▶ 1244 Part II.B (affects Form 912)
  - ▶ 1081 – new version available



# Office of Credit Risk Management Update

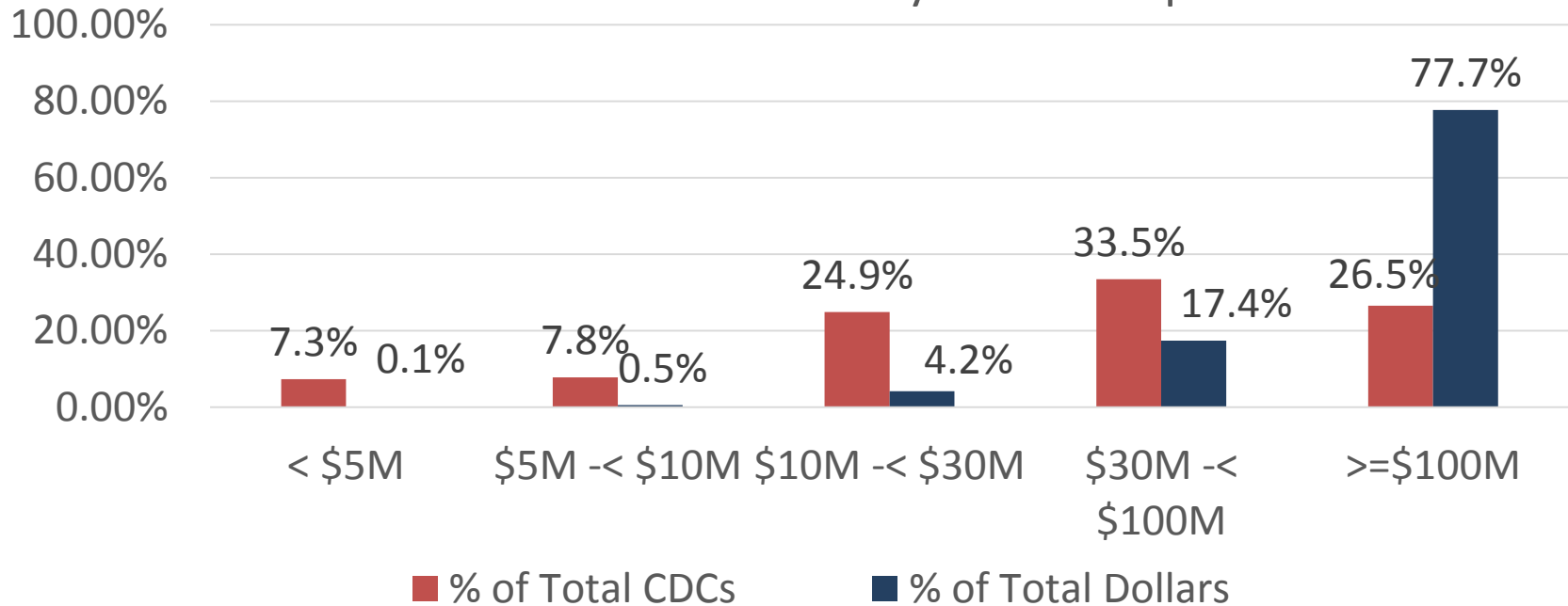
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Linda S. Rusche, Director



# Certified Development Company Distribution

## 504 CDC Distribution by Peer Group



Peer Group	CDC Count	% of Total CDCs	Outstanding Dollars	% of Total Dollars
< \$5M	18	7.35%	\$39,913,296	0.15%
\$5M -< \$10M	19	7.76%	\$142,003,033	0.53%
\$10M -< \$30M	61	24.90%	\$1,120,087,849	4.16%
\$30M -< \$100M	82	33.47%	\$4,694,896,042	17.42%
>=\$100M	65	26.53%	\$20,952,699,332	77.75%
<b>Total</b>	<b>245</b>	<b>100.00%</b>	<b>\$26,949,599,552</b>	<b>100.00%</b>

# 504 CDC Count and Peer Groups

Program / Lender Type	# of Lenders	# of Loans	Gross Dollars
<b>Certified Development Companies</b>	233	57,839	\$26,216,483,498
<b>Total:</b>	<b>233</b>	<b>57,839</b>	<b>\$26,216,483,498</b>

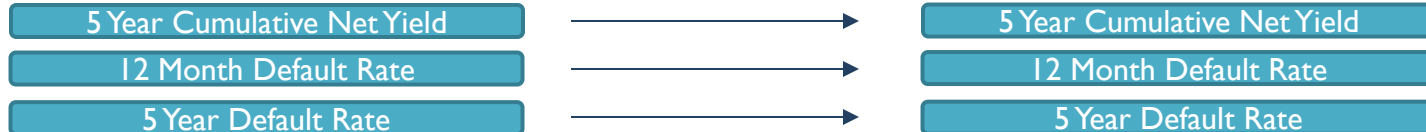
Gross Dollars	# of Lenders	# of Loans	Gross Dollars	Cumulative % of Active (Gross \$)	Cumulative % of Active Lenders
>= \$100M	63	43,142	\$20,318,204,041	77.5%	27.0%
\$30M-< \$100M	81	11,352	\$4,626,722,404	95.1%	61.8%
\$10M -< \$30M	59	2,744	\$1,097,302,682	99.3%	87.1%
\$5M -< \$10M	19	449	\$142,003,033	99.9%	95.3%
< \$5M	11	152	\$32,251,337	100.0%	100.0%
<b>Total</b>	<b>233</b>	<b>57,839</b>	<b>\$26,216,483,498</b>		

\*Includes only active CDCs

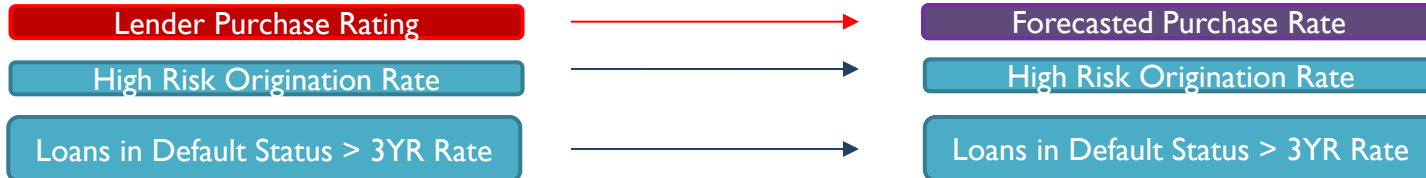
# SMART Re-organization

Purple indicates proposed metric creation, and red indicates proposed metric removal

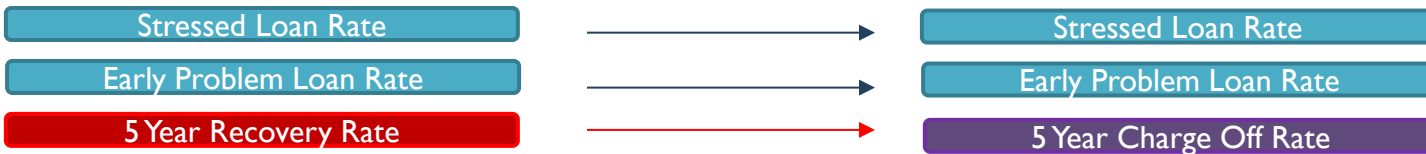
## Solvency and Financial Condition



## Management and Board Governance



## Asset Quality and Servicing



## Regulatory Compliance



## Technical Issues



# Statistical Sampling Methodology for File Review

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- ▶ Sample sizes can range from 30 loans to 60 loans depending on the size of the lender's portfolio
- ▶ The methodology will include a blend of:
  - ▶ Randomly sampling loans based on emerging risk factors (such as early defaults and risk of future total loss)
  - ▶ Randomly sampling loan status and delivery method for loans approved in the last 2 years
- ▶ The two sampling methodologies will be used to obtain 50% of the sample each
- ▶ The resulting loan population is a statistically representative sample of a lender's portfolio that allows OCRM to extrapolative general portfolio performance findings

# FY17 SMART Review Summary

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OCRM has conducted around 50 SMART Reviews the past few years and plans to continue to perform around 50 SMART Reviews a year in the future.

<b>504/CDC</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 Planned</b>
<b>Total Reviews</b>	<b>27</b>	<b>31</b>	<b>50</b>	<b>52</b>	<b>52</b>

## **Other Review Activities**

- ▶ Conducted 241 Annual Report reviews for FY2015 and 35 reviews thus far for FY2016.
- ▶ Conducted 25 FY17 reviews for Accredited Lender Program (ALP) and Premier Certified Lenders Program (PCLP) authorities

# CDC SMART Review Performance

## FY2015 to FY2017 YTD General Findings – Trends

- Continuing Trends – High frequency over past three years
- Emerging Trends – Increase in frequency over past three years
- Declining Trends – Reduction in frequency over past three years

FY2015	FY2016	FY2017
Insufficient procedures for reporting Jobs Created/Retained		
Inadequate Internal Control Policy		
Insufficient Loan Policy Manual and Servicing Policy and Procedures		
Failure to provide SBA access to, and copies of, any work papers, policies, and procedures relating to the services performed in audit engagement letter		
Failure to meet the requirement for an independent loan review		
Failure to meet Board of Directors group composition requirements	Inadequate risk rating methodology	
Non-compliant Bylaws		Inadequate Board meeting minutes
Failure to provide Board of Directors with semiannual report on portfolio performance		Inadequate documentation in CDC's Annual Report to SBA

# CDC SMART Review Performance

## FY2015 to FY2017 YTD Asset Quality Findings – Trends

- Continuing Trends – High frequency over past three years
- Emerging Trends – Increase in frequency over past three years
- Declining Trends – Reduction in frequency over past three years

FY2015	FY2016	FY2017
Failure to document required site visits		
Inadequate documentation of hazard insurance		
Failure to consistently perform a key person risk assessment and determination of life insurance		
Failure to comply with requirements regarding Eligible Passive Company (EPC) lease agreements with the Operating Company (OC)		
Failure to reassess borrower risk ratings		
Failure to adequately document its Certification of No Adverse Change		
Failure to document risk rating assessments at loan origination	Inadequate documentation and submission of Wrap-up Reports	
Failure to consistently confirm eligible use of proceeds		Inadequate intensive servicing



# CDC Delegated Lender Decisions

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- ▶ Process begins approximately 120 days before renewal date
  - ▶ CDC submits renewal package to the assigned District Office at least 90 days prior to the expiration date of lending authority. (See ALP/PCLP Guide - 5/2016)
  - ▶ District Offices review CDCs' performance and gather feedback from the processing and servicing centers before making a recommendation to OCRM for renewal.
  - ▶ OCRM reviews the renewal package, works with the CDC to update policies and address compliance issues, provides status extensions as necessary, and processes the renewal.
- ▶ Number of renewals YTD through March 31, 2017- 25 CDCs
- ▶ Number of less than full-term renewals YTD through March 31, 2017 - 2 CDCs

# CDC Delegated Lender Decisions

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## ▶ Tips and Tricks for a Smooth Renewal

- ▶ Submit your package on time.
- ▶ If you have any questions about the requirements, reach out to your District Office.
- ▶ Save time by requesting that we review your draft policies before seeking final board approval
- ▶ Pay special attention to the following areas:
  - ▶ Internal Control Policy
    - Create a stand alone policy
    - Include FFIR standard loan classification system
    - Assign responsibility for policy review
    - Confirm Board approval and compliance with 13 CFR 120.826(b)
  - ▶ Independent Auditor
    - Ensure engagement letter gives SBA unrestricted access to work papers, policies & procedures.
    - Check compliance with 13 CFR 120.826(d)(2).
  - ▶ Designated Attorneys
    - Check for up-to-date 504 loan closing training certificate
    - Check for in force professional liability insurance in appropriate amount as per SOP 50 10 5(H)A.3.V.B.3(c)
  - ▶ Board of Directors
    - Ensure composition of the board complies with 13 CFR 120.823.
    - Check that a signed certification from each director was included in last Annual report.
  - ▶ Independent Loan Reviews
    - Provide a copy of review report completed in last 12 months.
    - Include portfolio information and sampling methodology as per Independent Loan Review Guide.

# Thank You - - - for your time!

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▶ Director: Linda Rusche

- ▶ [linda.rusche@sba.gov](mailto:linda.rusche@sba.gov)
- ▶ 202-205-6396

▶ Deputy Director: Adrienne Grierson

- ▶ [adrienne.grierson@sba.gov](mailto:adrienne.grierson@sba.gov)
- ▶ 202-205-6573

▶ 504 Team Lead: Paul Kirwin

- ▶ [Paul.Kirwin@sba.gov](mailto:Paul.Kirwin@sba.gov)
- ▶ 202-205-7261

▶ Regions 1 – 4 Financial Analyst: Adam Shinn

- ▶ [Adam.Shinn@sba.gov](mailto:Adam.Shinn@sba.gov)
- ▶ 202-205-7220

▶ Regions 5 – 6 Financial Analyst: Rubina Blackmon

- ▶ [Rubina.Blackmon@sba.gov](mailto:Rubina.Blackmon@sba.gov)
- ▶ 202-205-7408

▶ Regions 7 – 10 Financial Analyst: Shannon Hawes

- ▶ [Shannon.Hawes@sba.gov](mailto:Shannon.Hawes@sba.gov)
- ▶ 202-205-6177

# Office of Financial Program Operations

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Susan Streich, Director



# OFPO Updates

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## ▶ SLPC Leadership

### ▶ **Director:** Hien Nguyen

- ▶ [Hien.Nguyen@sba.gov](mailto:Hien.Nguyen@sba.gov)
- ▶ 916-735-1221

### ▶ **Deputy Director:** Dennis Stytz

- ▶ [Dennis.Stytz@sba.gov](mailto:Dennis.Stytz@sba.gov)
- ▶ 916-735-1225

## ▶ SLPC Contact Info

- ▶ **Agreements (franchise/management):** [sacramento504agreements@sba.gov](mailto:sacramento504agreements@sba.gov)
- ▶ **Alien Verification:** [sacramentoAlienVerification@sba.gov](mailto:sacramentoAlienVerification@sba.gov)
- ▶ **Call center:** [sacramento504callcenter@sba.gov](mailto:sacramento504callcenter@sba.gov)
- ▶ **Servicing:** [sacramento504Servicing@sba.gov](mailto:sacramento504Servicing@sba.gov)
- ▶ **Shipping/Closing:** [sacramento504Shipping@sba.gov](mailto:sacramento504Shipping@sba.gov)

# Office of Economic Opportunity

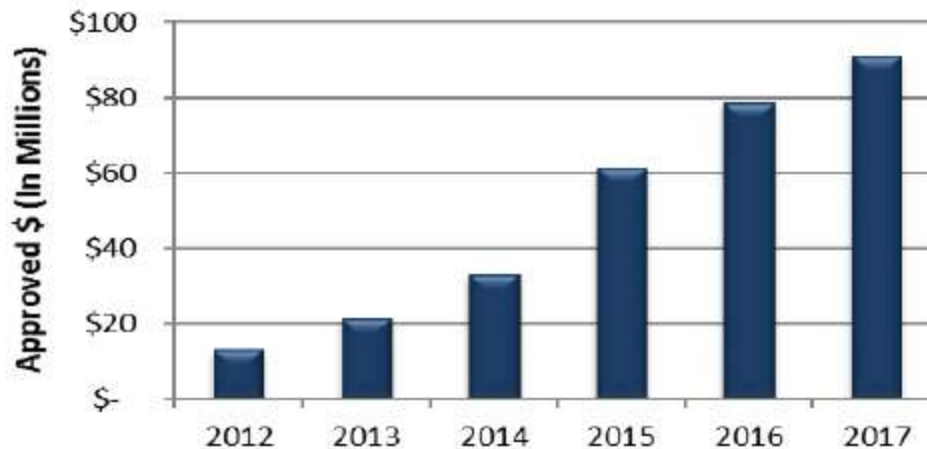
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Chris Webb, Acting Chief, Community Advantage



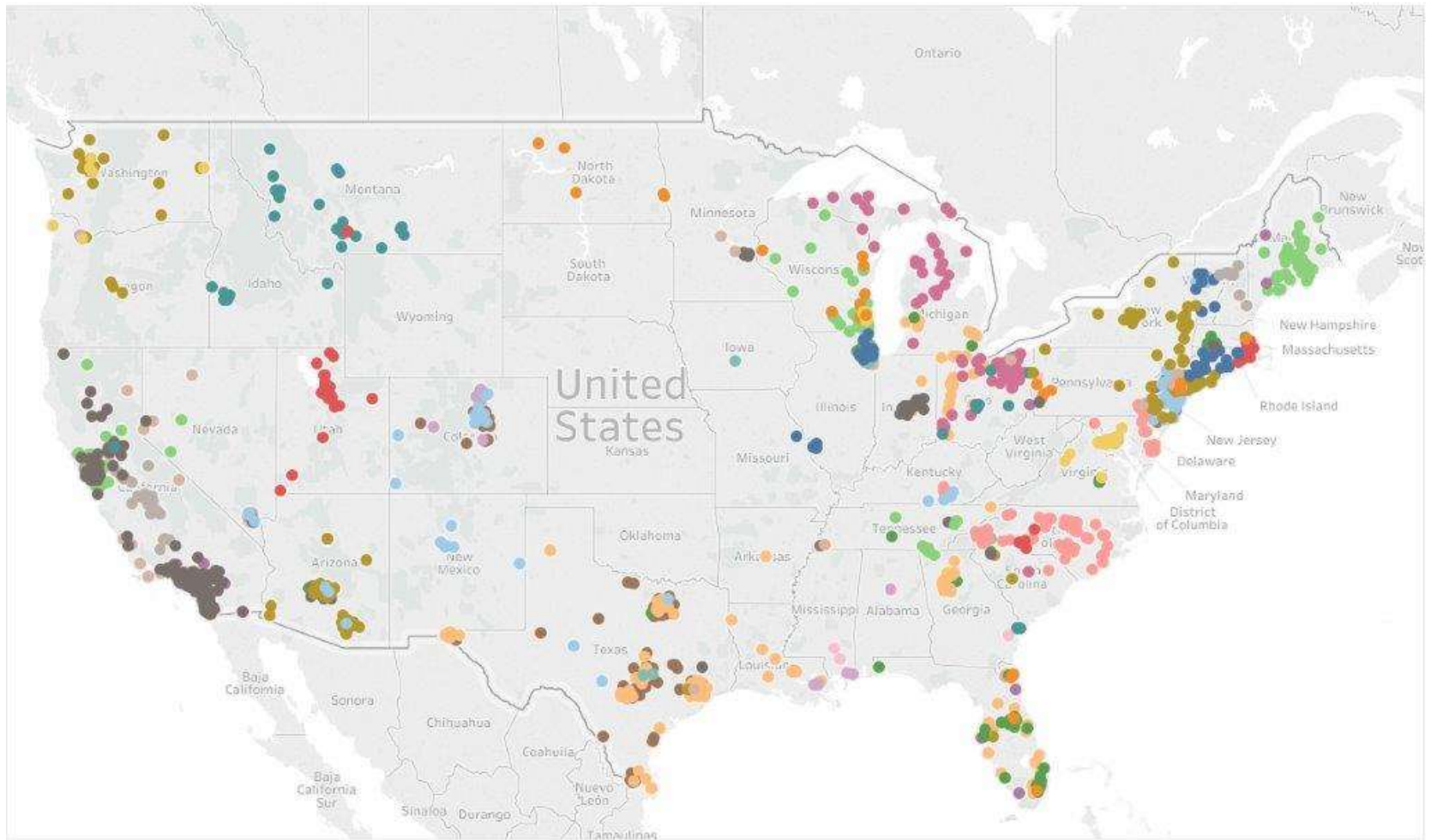
# Community Advantage Performance YTD

Fiscal Year	Approved Loans	Approved Dollars
2017	680	\$ 91,101,800
2016	631	\$ 78,513,100
2015	484	\$ 61,185,500
2014	252	\$ 33,091,900
2013	161	\$ 21,328,600
2012	98	\$ 12,993,100



# Community Advantage Lenders

CA Loans 2011 to 2017

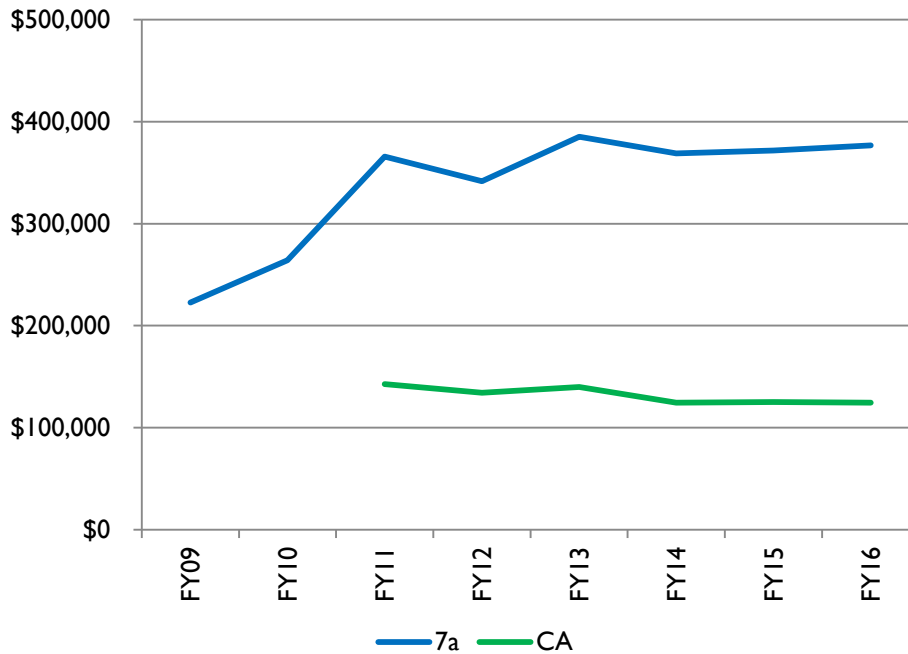


Map based on Longitude (generated) and Latitude (generated). Color shows details about Mainbank1. Details are shown for Borrowerzip. The data is filtered on Approval Date1 Year and Mainbank ID. The Approval Date1 Year filter keeps 7 of 7 members. The Mainbank ID filter keeps no members.



# CA Loan Size

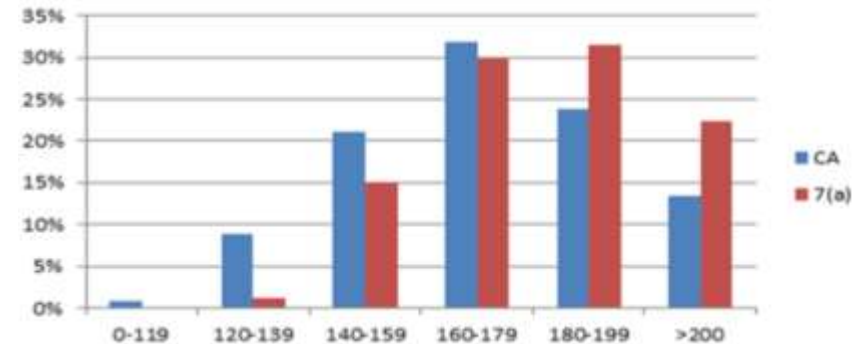
### Average Loan Size



### Community Advantage Approval Amount

Approval Amount	Number of Loans	Percent	Cumulative
≤ \$50,000	465	15.02%	15.02%
\$50,001 - \$100,000	929	30.02%	45.04%
\$100,001 - \$150,000	949	30.66%	75.70%
\$150,001 - \$200,000	205	6.62%	82.33%
> \$200,000	547	17.67%	100.00%
	<b>3,095</b>	<b>100.00%</b>	

### CA & 7(a) Approvals Credit Score (FY12-FY16)



# Underserved Markets

<b>FY 2016 - Community Advantage vs. Similarly-sized 7(a) Loans (&lt;= \$250,000)</b>			
		<b>% of Loans</b>	<b>% of \$ Approvals</b>
<b>African Americans</b>	<b>CA</b>	<b>13.26%</b>	<b>12.56%</b>
	<b>7(a)</b>	<b>4.29%</b>	<b>3.59%</b>
<b>Hispanics</b>	<b>CA</b>	<b>13.46%</b>	<b>13.39%</b>
	<b>7(a)</b>	<b>9.97%</b>	<b>8.01%</b>
<b>Woman owned &gt; 50%</b>	<b>CA</b>	<b>32.89%</b>	<b>31.06%</b>
	<b>7(a)</b>	<b>20.35%</b>	<b>18.92%</b>
<b>Veterans</b>	<b>CA</b>	<b>6.68%</b>	<b>6.61%</b>
	<b>7(a)</b>	<b>5.06%</b>	<b>5.15%</b>
<b>New Businesses</b>	<b>CA</b>	<b>49.29%</b>	<b>46.75%</b>
	<b>7(a)</b>	<b>39.50%</b>	<b>33.17%</b>

# Community Advantages for CDCs

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- ▶ Of the 58 CA lenders that have made a loan this fiscal year, 21 (36%) are CDCs
- ▶ Of the 504 CA loans made this fiscal year, 202 (40%) were made by CDCs
- ▶ Of the \$35 million in loan dollars made by the top ten CA lenders, \$18.6 million (54%) were made by CDCs
- ▶ Making CA loans is a sure fired way to satisfy the CDC requirement of reinvesting in underserved communities
- ▶ Our goal is to get to 125 lenders by the end of the fiscal year so call Chris Webb, Acting Chief of Community Advantage Pilot Loan Program, to get started: 202-619-0628 or email me at [James.webb@sba.gov](mailto:James.webb@sba.gov)

# Questions

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