U.S. Small Business Administration

TESTIMONY of

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Good morning, Chairman Chabot and Ranking Member Velazquez, and thank you for the opportunity to testify before this Committee on the Office of Credit Risk Management ("OCRM") of the U.S. Small Business Administration ("SBA"). As Director of OCRM, I am responsible for the oversight and risk management of SBA's lenders and loan guaranty portfolios of the 7(a) and Development Company (or "504") Loan Programs. I have spent the last two decades involved in lender oversight and loan program risk management at SBA, first from my hometown Kansas City, Missouri, and for the last two years here in Washington, DC.

SBA's Administrator Contreras-Sweet is a leader in championing small business lending while maintaining prudent credit standards in our loan programs. SBA is particularly interested in balancing the growing credit needs of America's small businesses with prudent lending, always ensuring that we are meeting the requirements of our mission as defined in the Small Business Act.

SBA's role is to fill an unmet need in the market place – to help creditworthy small businesses access credit when a conventional loan is not available – generally due to lack of collateral, start-up business status, industry type, or other issues. SBA is critical in providing credit to underserved markets, in a commercially prudent and reasonable manner.

My mission, and that of the entire Office of Credit Risk Management, is to effectively manage program credit risk, monitor lender performance, and enforce lending program requirements. In short, our mission is to maintain the integrity and viability of the 7(a) and 504 Loan Programs.

As of September 30, 2015, OCRM monitored a portfolio of 3,949 lenders that provide 7(a) guaranty financing in excess of $70.2 billion and 247 Certified Development Companies ("CDCs") responsible for approximately $26 billion in 504 debenture guarantees. This includes supervision of 14 Small Business Lending Companies ("SBLCs"), over 50 Non-Federally Regulated Lenders ("NFRLs") and over 100 Community Advantage Lenders.

During fiscal year 2015, the Office of Credit Risk Management monitored all SBA 7(a) Lenders and CDCs using our Loan and Lender Monitoring System ("L/LMS") which tracks the *monthly* performance of all 7(a) and 504 loans and assigns a *quarterly* credit score for each loan. A quarterly purchase rating for each lender is also generated using this L/LMS data.

In fiscal year 2015 OCRM also updated our methodology for oversight of the SBA operations of Federally Regulated 7(a) Lenders, and of CDCs. These methodologies feature a composite risk measurement methodology and scoring guide known as "PARRiS" for 7(a) Lenders and "SMART" for CDCs. (The PARRiS components cover the following areas: **P**ortfolio Performance, **A**sset Management, **R**egulatory Compliance, **Ri**sk Management, and **S**pecial Items. The SMART components cover the following areas: **S**olvency and Financial Condition, **M**anagement and Board Governance, **A**sset Quality and Servicing, **R**egulatory Compliance, and **T**echnical Issues and Mission.)

Benchmarks of historical and projected performance have been developed for the PARRiS and SMART methodologies, and provide relative measures of lenders' financial risk specific to each program. By using both predictive and historic performance metrics, OCRM obtains a holistic picture of lender risk, upon which to consider additional oversight activities. OCRM also updated risk-based review protocols to align with PARRiS and SMART, and conducted 565 risk-based reviews and exams using these protocols during the recent fiscal year.

Other accomplishments from FY 2015 include conducting over 1,200 assessments to renew delegated lending authority for our delegated 7(a) Lenders and CDCs; completion of 147 Corrective Action follow-up assessments from previous review activities, and approval of the Agency's 100th Community Advantage Lender.

Turning to our supervision and enforcement responsibilities, OCRM issued 6 increased supervision actions to 7(a) Lenders or CDCs for failure to follow SBA Loan Program Requirements, debarred or suspended over 30 agents or representatives from conducting further business with SBA, and issued letters to 20 CDCs for failure to meet regulatory requirements for minimum loan activity. We continue to actively manage these actions, as appropriate.

To accomplish our responsibilities, OCRM operates with a staff of 27 supplemented by five support contracts for reviews, exams and enforcement activities. We also remain the primary user of the L/LMS contract service that provides credit scoring and the lender purchase rating.

In fiscal year 2016, OCRM will continue to conduct a portfolio diagnostic of every lender using historical performance, the predictive credit scores for all 7(a) or 504 loans, and the PARRiS and SMART methodologies to evaluate the relationship of each lender's metrics to established benchmarks. OCRM will also continue to monitor lenders through programmatic risk-based reviews, using PARRiS and SMART to target existing and emerging risk, as identified.

In 2016 OCRM plans to conduct in-depth analyses using SBA's loan database to investigate existing risk, identify developing risk areas, and to inform program changes under consideration. We will be publishing our Final Rule this fiscal year on Agent Revocation and Supervision authorities, to strengthen existing procedures and align them with other federal agencies.

SBA also continues in active discussions with primary federal regulators on such topics as information sharing and vendor management. Through exchange of information we can bring improved oversight and monitoring to both our activities and theirs, minimizing duplication.

Thank you for the opportunity to share this information today regarding how OCRM supports SBA's role of providing access to capital for small business owners of this great country. I will be happy to respond to your questions.