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Thank you, Chairwoman Velázquez, Ranking Member Chabot, and members of the committee for inviting me to speak with you today. It is my pleasure to appear before you as we start the new calendar year.

The Small Business Administration (SBA) provides access to capital and resources to credit-worthy small businesses that otherwise would not be able to access capital to start or expand their business. These 30 million small businesses support over 58 million jobs. As Director of SBA’s Office of Credit Risk Management (OCRM), I am responsible for the oversight of the lenders participating in SBA’s business loan programs.

I bring to this position over 37 years of lending experience and a commitment to the small business community and the lending partners that serve them. My background includes extensive experience working with a diverse array of financial service organizations. I started my career with an SBA Certified Development Company in Arizona and later served as president of a Small Business Lending Company (SBLC) headquartered in South Carolina. In 2000, I returned to Virginia to join Capital One, which became the third largest SBA 7(a) lender (in number of loans), funding approximately 5,500 SBAExpress loans in one year.

In 2016, I was selected by SBA to serve as Director of the Office of Financial Program Operations (OFPO) in the Office of Capital Access. While in that position, I successfully oversaw SBA’s loan servicing and liquidation operations. In 2017, I became the Acting Director of the Office of Credit Risk Management in the Office of Capital Access and was made permanent Director three months later.

The SBA’s Office of Capital Access administers three loan programs for businesses – the 7(a) Guaranteed Loan Program (which includes the Community Advantage Pilot Loan Program), the 504 Program, and the Microloan Program. Each of these programs is dependent on the participation of private sector lending partners who are required to comply with SBA’s Loan Program Requirements. The mission of the Office of Credit Risk Management is to ensure the integrity and to maximize the effectiveness of SBA’s lending programs by managing portfolio risk, monitoring lender performance, and enforcing lending program requirements.

OCRM currently monitors the performance of over 3,500 7(a) and 504 lenders. These lenders include SBA Supervised entities – Small Business Lending Companies (SBLCs), Non-Federally Regulated Lenders (NFRLs), Certified Development Companies (CDCs), and Community Advantage lenders, and federally regulated institutions, whose primary federal regulator is either the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Federal Reserve, the Farm Credit Administration, or the National Credit Union Administration (NCUA). Approximately two-thirds of these lender participants are classified as “active lenders,” which have portfolios in excess of $10 million and have made at least one loan in the last 12 months. These lenders require regular and consistent oversight, with at least one Risk Based Review every 24 months. Those classified as “inactive” have existing
loan portfolios that require monitoring to ensure compliance with SBA servicing and liquidation requirements.

In 2018, Congress passed the Small Business 7(a) Lending Oversight Reform Act of 2018, which statutorily codified the existence and responsibilities of OCRM. Growth in 7(a) lending precipitated this legislation, which strengthens SBA’s lender oversight authorities, including its ability to supervise its lenders and take informal enforcement as well as formal enforcement action against lenders. The legislation directs OCRM to evaluate participants’ conduct in complying with SBA’s Loan Program Requirements and, when necessary, recommend and implement enforcement actions against lenders that are putting SBA loan programs at risk.

Informal enforcement actions are usually instructive in nature, involving cooperation from the program participant. They consist of, for example, voluntary agreements or mandatory training. Formal enforcement actions may include imposition of a portfolio dollar ceiling, suspension from secondary market sales, suspension or revocation of delegated authority, suspension or revocation of participation in the SBA programs, or debarment. OCRM recommends the type of enforcement action based on the severity and/or frequency of the violation and enforcement may include a civil monetary penalty. OCRM’s recommendation for enforcement action is made to SBA’s Lender Oversight Committee, a high level committee that approves, disapproves, or modifies the recommendation.

The 2018 legislation required SBA to promulgate regulations to implement certain provisions of the law. The Agency has pursued this rulemaking in a diligent manner and published the proposed Lender Oversight Rule in June 2019. The final rule is expected to be published next month.

To fulfill its responsibilities, each year OCRM staff perform approximately 1,000 multi-level lender compliance and Risk Based Reviews and an additional 1,100 delegated authority reviews. A key provision of the 2018 legislation and the proposed regulation is that SBA staff must take the lead in all lender reviews. This was not the case historically, as OCRM often engaged contract staff to perform the lead role in lender reviews. Following the legislation, OCRM has begun increasing its staff, modifying its lender review processes, and implementing a rigorous training program to ensure that OCRM has the workforce capability and leadership in-house to support its heightened mission and responsibilities.

OCRM is responsible for developing and implementing effective risk management practices and overseeing SBA loan programs and lender participants. An important component in this ongoing assessment of risk is the administration of the Loan/Lender Monitoring System (known as L/LMS). This system, which was developed by Dun & Bradstreet, enables OCRM to conduct a continuous, risk-based analysis of its portfolio and SBA’s lending partners. The analysis features a risk framework for the 7(a) program known as “PARRiS.” PARRiS is an acronym for the specific risk areas or components that SBA reviews: Portfolio Performance; Asset Management; Regulatory Compliance; Risk Management; and Special Items. The risk framework for the 504 program is known as “SMART.” SMART is an acronym for the specific risk areas or components that SBA reviews for the 504 program: Solvency and Financial Condition; Management and Board Governance; Asset Quality and Servicing; Regulatory Compliance; and
Technical Issues and Mission. Utilizing the advanced analytical data derived from L/LMS, OCRM assesses the performance of each lender and the overall SBA loan portfolio, identifying trends, and analyzing specific segments for deeper review.

Through trend analysis and assessment of analytical risk indicators, OCRM gains insight into risk and more fully evaluates lender and portfolio performance. Based in part on the data derived from L/LMS and the additional analysis performed, OCRM conducts strategic reviews of lending partner activities including their SBA lending operations and compliance with program Standard Operating Procedures (SOPs), rules, and regulations. In addition, Lending Partners have online access to their risk and portfolio performance information through the Lender Portal. This access provides transparency and enables lenders to be proactive in improving performance and reducing risk.

The oversight of our lending partners and risk analysis of SBA's loan programs are critically important to maintaining program integrity. OCRM strives to help lending partners better understand how best to fulfill the requirements of the lending programs in a way that is beneficial to their small business customers while maintaining compliance with the regulations and SOPs that govern each loan program. The capability and compliance of our lending partners is critical to the efficient delivery and overall success of these programs. Consequently, OCRM has an important role to play in identifying lender training needs and coordinating with other SBA offices and external stakeholders to expand learning opportunities to strengthen lender knowledge, understanding and performance.

Over the last two years, OCRM has been seeking ways to better fulfill its mission while adapting to the current lending environment. OCRM has accomplished this by improving its operations and engaging in interagency partnerships with other federal regulators. In FY19, OCRM was able to build strong and collaborative relationships with the FDIC and the OCC. This partnership has greatly facilitated OCRM's ability to proactively identify risk and will help us improve lender compliance and performance on an ongoing basis.

In addition, in FY19 OCRM implemented nationwide expansion of the Lender Oversight pilot program that was tested initially in the Western Region of the Federally Regulated 7(a) Lender Oversight Team during 2018. This resulted in one team overseeing all Federally Regulated 7(a) Lender participants. This national rollout created a consistent review methodology across the nation, improving lender oversight and resulting in a more robust, effective and efficient lender review process by testing the viability of virtual Risk Based Reviews (RBRs), in which lenders upload loan files to an electronic repository for SBA to review. This change resulted in greater consistency and enhanced quality control of the loan file review process at reduced cost to lender participants.

OCRM continues to refine and streamline its approach to monitoring lender risk through its multi-level review process. The Federally Regulated 7(a) Lender Oversight Team is now positioned to perform reviews every 24 months on all lenders with greater than $10 million in SBA loans, and every 36 months for those lenders with portfolios less than $10 million. The review process has been redesigned so that much of the analysis and loan file review activity is performed virtually, providing more timely feedback to the lenders under review and saving them the cost associated with the onsite review process. OCRM is now pursuing an automated
solution to develop the analytical portion of the review, which will enable OCRM staff to perform enhanced analysis and more in-depth reviews.

Finally, OCRM is pursuing several significant goals during the current fiscal year to improve its ability to proactively monitor portfolio performance and identify and mitigate lender risk. These include:

- Implementing a recruitment prioritization plan to fill positions;
- Driving development and implementation of the Loan Review Tool (LRT), a solution accessible by multiple authorized users that will enable consistency in loan file review and results that can be aggregated by loan type or lender segment;
- Adding Microloan Intermediary oversight to FY20 oversight capabilities;
- Publishing the final Lender Oversight Rule;
- Revising SOP 50 53 (Supervision and Enforcement) and SOP 51 00 (Examination Manual); and
- Continuing to enhance partnerships with the FDIC, OCC, and NCUA.

Thank you, Chairwoman Velázquez and Ranking Member Chabot, for inviting me to testify here today. I look forward to answering your questions and continuing our work together to help advance small businesses across this country.