

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OMB Control Number 3245-0365
Expiration Date XX/XX/XXXX

Sent Via Email

Date

Bank
Street Address
City, State Zip

Re: Risk Based Review, Diagnostic Review Notification Letter

Dear Lender Contact,

In accordance with 15 USC 657t and 13 CFR 120.1050, the , the U.S. Small Business Administration, Office of Credit Risk Management (OCRM) will be conducting a Diagnostic Review (PARRiS Analytical Review, PAR) of your entity. This review helps OCRM determine if any additional review activities are necessary.

Review activities will be conducted remotely. During the review it is anticipated that we will have routine correspondence (phone and email) to address any questions that may arise. We may hold a conference call to discuss the review results prior to finalizing the report.

The review process requires your entity provide requested information and documentation to OCRM within 10 business days of this letter. This information is outlined in an attachment to this letter. Please provide this information via email to me at XXX@sba.gov.

Your entity may be billed for this review in accordance with 13 CFR § 120.1070 . We estimate the cost of this review will be less than \$[XXXX]. SBA will provide your institution with an invoice in conjunction with the final report.

If you have any questions, please feel free to contact me via email at XXX@sba.gov or phone at (202) 205 - XXXX.

I look forward to working with you and your team.

Sincerely,

Financial Analyst Name

Financial Analyst
Office of Credit Risk Management

Attachments

CC: NAME, Reviewer-in-Charge, Office of Credit Risk Management
NAME, District Director, XXX District Office

SBA Form [2506)



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**7(a) Lender Diagnostic Review Information Request
Attachment to Notice of Intent to Perform Review**

In accordance with 15 USC 657t(c)(2), 13 CFR §120.1000 (Risk-Based Lender Oversight), and 13 CFR §120.1050 (Reviews and Examinations), SBA conducts reviews and examinations of the SBA loan operations of SBA Lenders. The information requested below assists in SBA's evaluation of the Lender's portfolio performance; SBA operations management; credit administration; compliance with Loan Program Requirements and, as applicable, capital adequacy, earnings, and liquidation.¹ Submission of this information is required so that SBA can conduct that evaluation.

Instructions for the submission of requested information are in the attached cover letter.

Please use this document to provide your entity's detailed response to all questions in the space following (if not applicable, please indicate by using "NA"). Any supporting documents (PDF's etc.) should include the question number in the title.

**Please note, in general, for information that has already been provided by a Lender but is unchanged, the Lender may certify that the information was already provided and is unchanged in lieu of resubmitting the information. The certification that must accompany this document submission must also state to whom and on what date the information was provided to SBA.

1. Is the 7(a) team and operations part of the Lender or a subsidiary?
 - a. If part of a subsidiary, please provide a general overview/background.
2. Please provide an organizational chart specifically related to 7(a) lending.
 - a. The information should identify only the staff/positions involved in 7(a) lending and should incorporate all relevant executives.
3. Please provide a summary of related delegations and responsibilities for executives and managers that are involved in 7(a) lending.
 - a. Also, please provide a summary of any changes to management and/or staffing related to 7(a) lending that have occurred within the last two years.
 - i. If the changes involve middle and/or senior management, please provide information about the change, including relevant experience.
 - ii. If the changes are related to general staffing, please only provide position information (e.g., expanded from two underwriters to three).
 - iii. Please ensure that, if applicable, the response addresses changes to 7(a) loan approval responsibilities and delegations of authority.

4. Please provide all plans/reports currently guiding 7(a) lending objectives. Objectives include, but are not limited to, 7(a) portfolio growth; performance; delivery methods/products; referral agents; lender service providers; geographic dispersion; industry specific lending; franchise lending, etc.
 - a. If your management team plans to materially change the 7(a) lending approach, please provide an overview of those plans. Changes may include, but not be limited to staff additions or reductions, outsourcing activities (e.g., entering into an agreement with a Lender Service Provider), and/ or acquiring or selling 7(a) assets, etc.).
5. During the preceding 12 months, have there been any mergers/acquisitions with another 7(a) Lender. Are they any planned mergers and/or acquisitions (e.g., entire entity, individual loan, or 7a portfolio) involving another 7(a) Lender?

If “yes” to either question above, please provide responses for each question below. Please only provide information available to the public.

- a. Name of the 7(a) Lender to be merged with/acquired.
- b. Which entity will be the surviving 7(a) Lender?
- c. Has the merger/acquisition been completed?
 - i. If “yes”,
 1. What was the merger/acquisition completion date?
 2. Did you receive written prior consent from SBA?
 - a. If not, please contact 7aPortfolioTransfers@sba.gov immediately for guidance.
 3. Where the 7(a) loans (guarantees) transferred successfully?
 - ii. If “no”,
 1. What is the anticipated completion date?
 2. Will there be changes to the SBA Department structure?
 - a. If “yes”, provide a brief narrative.
 3. Is there a name change anticipated due to the merger/acquisition?
 4. Are there other anticipated changes due to the merger/acquisition?
 5. Please provide any other pertinent information (e.g., one entity will operate as a subsidiary, etc.)
 6. Has your team been in contact with 7aPortfolioTransfers@sba.gov?

- a. If not, please reach out to that team immediately for guidance.
6. Is your institution aware of any information that fraud may have occurred in connection with any 7(a) loan in its portfolio?
 - a. If “yes”, were the instances reported to the SBA’s Office of Inspector General (OIG)?
 - b. If “no”, when is it anticipated that the OIG submission will be made?
7. Is your institution or staff experiencing any specific issues in connection with 7(a) lending or with the 7(a) portfolio?
8. During the last two years, has your primary market been subject to any natural disasters (e.g., hurricane, flooding, fire, etc.) other than COVID-19?
 - a. Primary market for the purpose of this review is defined as 25.0 percent or more of 7(a) Gross Loan Dollars associated with projects in counties included in a presidential disaster declaration or an emergency declaration.
 - b.
9. Please provide information on the following:
 - a. Application Sourcing:
 - i. Who is responsible for obtaining applications?
 1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
 2. If not direct employees, please provide background information specific to the situation.
 - ii. How are applications obtained? (e.g., branch network, third-party referral sources, Lender Service Provider, etc.)
 - iii. Who is responsible for packaging the applications?
 1. What is the basis for the compensation?
 2. Who pays the packager?
 3. If you have a Lender Service Provider Agreement, is this a service provided to your entity per the agreement.
 - b. Eligibility:
 - i. Who determines if an application is eligible for a 7(a) guaranty?

- ii. Does a third-party, e.g., Lender Service Provider, assist with this step?
 - iii. When is this determined?
 - iv. Does the eligibility determination include testing the System for Awards Management (SAM) and/or Credit Alert Verification Reporting System (CAIVRS)?
- c. Underwriting:
- i. Who is responsible for underwriting applications?
 - 1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
 - 2. If not direct employees, please provide background information specific to the situation.
 - ii. Does a third-party, e.g., Lender Service Provider, assist with this step?
 - iii. Who does the underwriter work with to resolve open items? (e.g., for missing documents does the underwriter go to the originating loan officer, the applicant, the broker, etc.)
 - iv. Where are the underwriters located?
- d. Approval/Denial:
- i. How are 7(a) loans approved? (E.g., individual loan authority, joint loan authority, committee, etc.)
 - 1. Please provide information about the position and/or committee's authority limits.
 - ii. What are the current house and legal lending limits?
 - iii. What controls are in place to ensure that (1) only applications that are properly approved proceed and (2) the loan authorization reflects all the requirements stated in the credit approval?
 - iv. Who is responsible for inputting applications into ETran?
 - v. Please provide the process for application denials.
- e. Pre-Closing:
- i. Who is responsible for conducting lien searches, appraisals, document preparation, etc.?

1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
 2. If not direct employees, please provide background information specific to the situation.
- ii. Does a third party, e.g., Lender Service Provider, assist with this step?
 - iii. Where is this team/people located?
- f. Post-Closing:
- i. Who boards the loan?
 1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
 2. If not direct employees, please provide background information specific to the situation.
 - ii. Who follows up on post-closing items (e.g., filed deeds of trust, etc.)?
 - iii. Who is responsible for documenting any loan modifications?
 - iv. Does a third party, e.g., Lender Service Provider, assist with this step?
 - v. Where is this team/ people located?
- g. Servicing:
- i. Who is responsible for servicing SBA loans?
 1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
 2. If not direct employees, please provide background information specific to the situation.
 - ii. Does a third party, e.g., Lender Service Provider, assist?
 - iii. How are loans monitored (e.g., annual financial statement collection/review, routine scoring, etc.)?
 - iv. How are ongoing requirements monitored (e.g., real estate tax payments, insurance maintenance, UCC continuations, etc.)?

v. Where is this team/people located?

h. Liquidation:

i. Who is responsible for conducting liquidation activities?

1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
2. If not direct employees, please provide background information specific to the situation.

ii. Does a third party, e.g., Lender Service Provider, assist?

iii. Who is responsible for compiling and submitting purchase requests?

iv. Where is this team/people located?

i. Litigation

i. Who is responsible for conducting litigation activities? (e.g., inhouse or external counsel)

1. If direct employees (e.g., W-2 employee of the lender), please ensure that they (position only, not individual names) are included in the organizational chart.
2. If not direct employees (e.g., external counsel), please provide background information specific to the situation.

ii. Does a third party, e.g., Lender Service Provider, assist?

iii. Who is responsible for ensuring that litigation plans are submitted/approved by SBA?

iv. Where is this team/people located?

10. Please provide all internal and external reviews, audits, exams, and/or management letters conducted during the previous 24 months that included 7(a) lending requirements in the scope. In addition to the report(s), please provide all applicable responses from management.

a. Please do not provide any reports that you are legally restricted from sharing (e.g., most primary federal regulator reports) or any previous OCRM reviews/examinations.

11. SBA data reflects that your institution utilizes COUNT Lender Service Providers (Names of all LSPs). Please complete the attached LSP Questionnaire.
- a. If the Lender Service Provider Agreement has been terminated, please advise LSPAgreements@sba.gov of the termination and copy me on the email.
 - b. Please note that if the Agreement was accepted by SBA prior to January 1, 2018, you must review the agreement to ensure that it meets the current requirements, making revisions if necessary, and the agreement must be resubmitted to LSPAgreements@sba.gov for consideration. The resubmission must occur regardless of if revisions were made.
 - i. If you do not know for sure if the SBA has accepted or terminated an agreement, one way to determine the date(s) is to access the Lender Portal. The Special Items section has information about any LSP's (e.g., the date of agreement, termination date, etc.).

OR

SBA data does not reflect that your institution utilizes a Lender Service Provider. Please confirm whether this is correct.

If the data is not correct your entity is currently utilizing an LSP, please complete the attached questionnaire.

12. SBA data does not reflect that your portfolio contains 7(a) loans that are sold on the secondary market. Please confirm if that is correct.

OR

SBA data reflects that your portfolio contains 7(a) loans that are sold on the secondary market.

- a. SBA Form 1086 requires a demand deposit account be maintained for payment processing; please provide a copy of the signature card for this account.
 - i. The signature card must read, "LenderNAME, for benefit of Guidehouse LLP as Fiscal Transfer Agent, in trust for the individual security beneficiaries". The full title must be on the signature card.
 - b. In addition to the signature card, please provide a copy of the most recent bank statement.
 - i. The bank statement should reflect activity and the title may contain abbreviations (its understood that the signature card likely has a higher character limitation than the bank's system; therefore, the bank statement may have abbreviations such as "FBO" in lieu of For Benefit of, "FTA" for Fiscal Transfer Agent, and "ITFSB" for in trust for the individual security beneficiaries.
13. If your entity does not charge packaging fees and no third parties are compensated in the origination process, please provide a statement to that effect.

Otherwise, please provide a list of all loans disbursed during the last 12 months where your entity or a third-party received compensation (e.g., loan packaging, referral fee, broker fee, etc.).

Details for each loan should include the name of the party receiving compensation, the amount paid, service rendered, how the amount was determined, who paid the fee/expense, and the condition of payment (e.g., at application, upon approval, after closing, etc.).

14. SBA data does not reflect that your 7(a) loan portfolio contains loans originated by other lenders. Please confirm if that is correct.

OR

SBA data reflects that your 7(a) loan portfolio contains loans originated by other lenders. Please complete the chart below.

<i>Originating/Selling Lender</i>	<i>Acquisition Type</i> <i>(choose the relevant options from the list below)</i> <ul style="list-style-type: none"> • <i>Assets acquired individually</i> • <i>Part of an overall Purchase</i> • <i>Purchase facilitated by Federal Regulator</i> • <i>Open Market</i> 	<i>Acquisition Date</i>

15. Has your entity securitized the unguaranteed component of any of its 7(a) loans?
- a. If “yes”, please provide details surrounding the securitization and proof that the SBA was notified.
16. SBA data reflects/ does not reflect any public orders or consent agreements addressing capital, asset quality, and/or commercial lending. Please confirm if that is correct.
- a. If the statement above is not correct, please provide additional information on the current circumstances.
17. Please provide a list of any training (course title and trainer) and attendees received in the last 24 months that is relevant to 7(a) lending.
18. Please provide the credit analysis (e.g., credit memorandum and supporting financial analysis) and SBA Form 159, if applicable, for the three loans listed below:

- a. Loan Name (SBA Loan # 123456789)
- b. Loan Name (SBA Loan # 123456789)
- c. Loan Name (SBA Loan # 123456789)

19. Please provide the boilerplate credit memorandum used for 7(a) loans and any checklists (e.g., application, SBA Addendums, pre/post-closing, etc.).

PLEASE NOTE: You are not required to respond to any collection of information unless it displays a currently valid OMB Approval number. The number for this collection of information is 3245-0365. The total estimated time to respond to this collection of information, including gathering and maintaining the data needed, and completing and reviewing the collection of information, is 960 minutes. You may send comments or questions regarding this estimated time or any other aspect of this collection of information including suggestions for reducing the time or other burden to: Director, Records Management Division, 409 Third Street, S.W., Washington D. C. 20416, and Desk Officer for the Small Business Administration, Office of Management and Budget, New Executive Office Building, Room 10202, Washington DC 20503. PLEASE DO NOT SEND REPORTS, APPLICATIONS, OR OTHER FORMS TO THESE ADDRESSES.

LENDER NAME (FIRS)

**Lender Service Provider
Questionnaire**

Please provide responses to the questions pertaining to your institution’s Lender Service Provider usage.

Acronyms used in this questionnaire:

Lender Service LSP
 Provider.....
 Lender Service Provider LSPA
 Agreement.....

- | | True | False |
|---|--------------------------|--------------------------|
| 1. The LSPs listed below are the only ones being utilized. | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Enter Name from SBA Data | | |
| b. Enter Name from SBA Data | | |
| c. Enter Name from SBA Data | | |
| <i>If “False”, on a separate sheet please provide the names of all LSPs being utilized.</i> | | |
| 2. There is a written LSPA in place with every applicable LSP. | <input type="checkbox"/> | <input type="checkbox"/> |
| a. <i>If “False”, on a separate sheet please identify the LSPs operating without a written LSPA.</i> | | |
| 3. There have not been any material changes in the Lender/LSP relationship since the LSPA was executed. | <input type="checkbox"/> | <input type="checkbox"/> |
| a. <i>If “False”, please provide details of the changes on a separate sheet.</i> | | |
| 4. There are not any plans for material changes in the Lender/LSP relationship. | <input type="checkbox"/> | <input type="checkbox"/> |
| a. <i>If “False”, on separate sheet please provide details of the planned changes.</i> | | |

- | | | | |
|-----|---|--------------------------|--------------------------|
| 5. | Your institution has written policies for LSPs assisting with 7(a) related activities. | <input type="checkbox"/> | <input type="checkbox"/> |
| | Your institution has written procedures for LSPs assisting with 7(a) related activities. | <input type="checkbox"/> | <input type="checkbox"/> |
| | Your institution has written oversight plans for LSPs assisting with 7(a) related activities. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. | Within the last 18 months, there has been one or more internally or externally prepared oversight/examination reports/audits on the LSPs performed. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | Your institution maintains a listing of each product, process, system, and service supported by the LSPs. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. | Your institution executes every Form 1920 and Loan Authorization. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. | The LSP cannot approve a loan application. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. | The LSP does not handle borrower payments. | <input type="checkbox"/> | <input type="checkbox"/> |
| | a. <i>If “False”, the funds are held in an account in the Lender’s name.</i> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. | The LSP does not net its fee out of any borrower payments or other funds collected on the Lender’s behalf. | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. | Fees paid by the Lender to the LSP are not passed onto the Small Business Applicant. | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. | The LSP provides packaging services to your institution’s Small Business Applicants. | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. | The Small Business Applicant is not charged by both your institution and the LSP for the same service. | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. | Secondary market premiums are not shared with the LSP. | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. | The LSP does not assume a portion of the risk of the unguaranteed portion of any loan. | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. | There is not any actual or apparent conflict of interest or self-dealing on the part of any of the lender’s officers, management, or staff and the LSP. | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. | Your institution has a LSP risk management process. | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. | Your institution has an oversight plan to manage the LSP relationship. | <input type="checkbox"/> | <input type="checkbox"/> |
| | If “true”, the plan: | | |
| | a. Discusses the risk associated with the LSP/Lender relationship. | <input type="checkbox"/> | <input type="checkbox"/> |
| | b. Describes the strategic purpose (e.g., reduce costs, leverage specialized expertise, etc.), legal, and the compliance aspects and inherent risks. | <input type="checkbox"/> | <input type="checkbox"/> |

- c. Assesses the complexity of the arrangement (i.e., the volume of activity, potential for subcontractors, technology needed, etc.)
- d. Assesses the nature of customer interaction with the LSP and potential impact the relationship will have on the bank's customers.
- e. Details how the bank assesses and oversees the third party, including monitoring the third party's compliance with the LSPA.
- 20. Your institution conducted a review of the LSP before signing the LSPA (e.g., financial condition, experience and reputation of the business and senior management, risk management, information security, etc.).
- 21. The LSPA or operating agreement clearly defines expectations and responsibilities of the LSP.
- 22. Your institution and the LSP are complying with the terms of the LSPA.
- 23. Your institution performs ongoing monitoring of the LSP relationship (e.g., the LSPs activities and performance, financial condition, insurance coverage, ability to manage risk, agreements with other entities, ability to maintain the confidentiality and integrity of the bank's information and systems, etc.)
- 24. Your institution has dedicated staff with the necessary expertise, authority, and accountability to oversee and monitor the LSP.
- 25. Your institution conducts regular site visits to the LSP.
- 26. Your institution has a contingency plan to ensure that it can transition the activities to another LSP, bring the activities in-house, or discontinue the activities if the LSP/Lender relationship terminates or the terms of the LSPA are not satisfied.
- 27. Your institution properly documents and reports on its LSP risk management process (e.g., executed contracts, risk and performance reports (audit reports, security reviews, compliance with LSPA reviews).
- 28. Your institution conducts a periodic independent review of the risk management process for LSP relationships.

Signature.....

Authorized Signor Name (Print).....

Authorized Signor Title (Print).....

Date.....

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