2016 SBA Loan Market Outlook

Sophisticated Lenders Drive Growth, Better Risk Controls

PREPARED BY
Shawn T. Andrews - Managing Director
Leonard L. Ray - Director of Servicing
William McClain - Vice President, Credit & Processing
Michael Breckheimer - Vice President, Risk Management

TABLE OF CONTENTS

1. Introduction 1
2. Strategy 5
3. Processing 8
4. Loan secondary market sales 10
5. Servicing 12
6. Intensive servicing 15
7. Regulatory support 18
8. Lender risk self-assessment 20

WINDSOR ADVANTAGE

Introduction

Shawn T. Andrews, Managing Director

Small businesses are the primary jobs engine of the U.S. economy — providing 66% of all net new jobs since the 1970s.

Welcome to our inaugural SBA Loan Market Outlook, an annual forecast of key market dynamics based on the best data available at the time of publication. As our strategic discussions with lenders naturally focus on the big picture of the SBA loan market and noteworthy trends we see unfolding in the year ahead, this report attempts to capture the same forward-looking, proactive view as a foundational tool. We invite your candid constructive criticism as we refine our outlook throughout the year.

Small businesses are the primary jobs engine of the U.S. economy — providing 66% of all net new jobs since the 1970s. The Small Business Administration helps small businesses drive a healthy economy through a number of initiatives — including the flagship 7(a) loan guaranty program — designed to encourage lenders to provide loans to small businesses that are often unable to secure financing with reasonable terms and conditions otherwise.

Four themes define the SBA lending market in 2016:

- SBA loan approvals at a record high
- Lender participants at the lowest level in eight years
- Recession expected in the next five years
- The imperative for comprehensive risk controls

Approvals hit record level

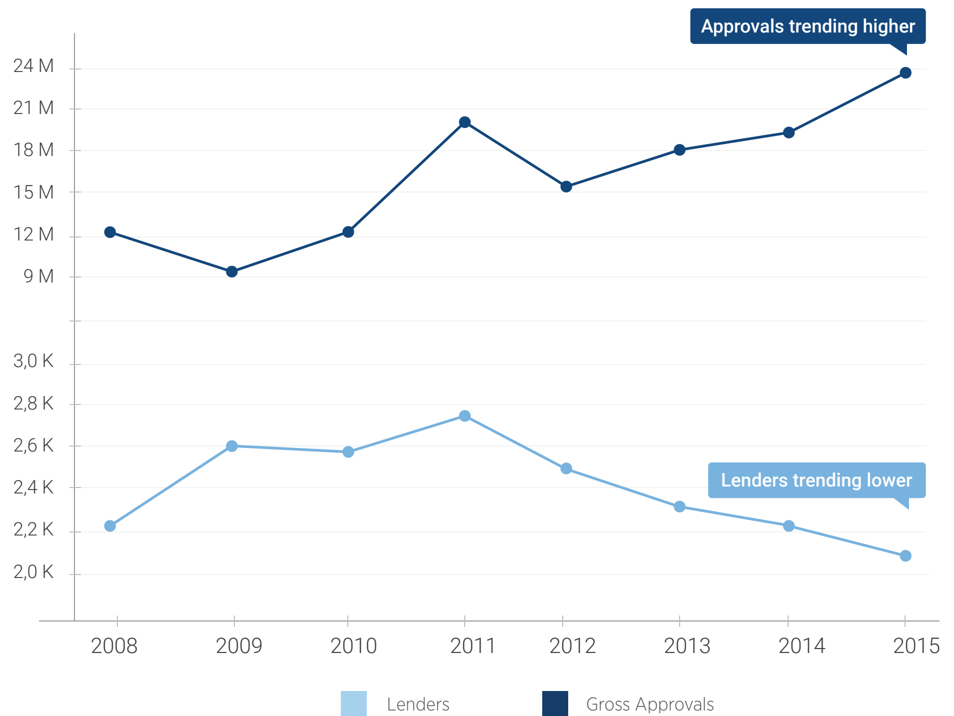
The SBA achieved a record level of approvals in FY 2015, with more than 63,000 7(a) loans totaling $23.8 billion.

As shown in the chart below, the SBA achieved a record level of approvals in FY 2015, with more than 63,000 7(a) loans totaling $23.8 billion. This 23% increase in the dollar volume of loans represents the third consecutive year of growth in the financing of businesses through the 7(a) program.

Some of the increasing volume trend may be attributed to economic expansion and permanent changes to the SBA program, as the Small Business Jobs Act of 2010 solidified higher loan limits put in place during the financial crisis to encourage economic recovery and upwardly revised the size definition of a small business.

But much of this sustained increase in volume is more likely due to the increasing sophistication of SBA lenders.

Sophistication gap widening: More loans by fewer lenders



SOURCE - Small Business Administration

Lender participants at lowest level in 8 years

The number of lender participants in the SBA 7(a) loan program continued to decline — dropping to the lowest level in eight years.

While total dollar volume hit a record high, the number of lender participants in the SBA 7(a) loan program continued to drop from a highpoint of 2,728 in FY 2011 to 2,163 in FY 2015 — the lowest level in eight years. The top 50 lenders by volume provided more than 53% of all SBA 7(a) loans in FY 2015. There are a decreasing number of participants at the same time the program is funding more loans than ever.

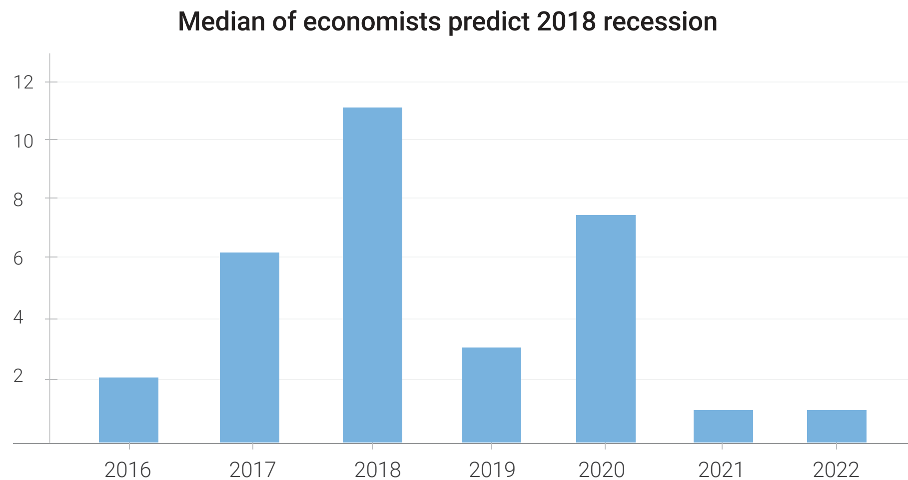
Of the top 10 lenders in FY 2015, three are community banks with less than $1 billion in assets. Additionally, a non-bank Small Business Lending Company (SBLC) is also among the highest volume SBA lenders in the country. These sophisticated lenders are providing more SBA capital than significantly larger banks — without the benefit of extensive branch networks or cross-referrals from other divisions within the bank.

And if Q1 of FY 2016 is any indication, the three months ended December 31, 2015, the volume trend looks likely to continue. Technological shifts such as marketing automation, marketplace lending and SBA One may also positively impact volume going forward.

Recession expected in the next five years

The median of 31 economists recently surveyed by Bloomberg now expect a recession to hit in just two years.

After almost seven years of increased economic productivity, the median of 31 economists recently surveyed by Bloomberg now expect a recession to hit in just two years. As the chart below shows, most of the economists foresee a recession anytime from next year to 2020.



SOURCE - Bloomberg News survey

This forecast makes sense statistically, as the period between recessions since WWII averages just under five years. A 2018 recession would end a nine-year expansion. The span of the 1990s up to the tech bubble was the longest period of growth in US history — and it lasted a decade. While recessions are notoriously difficult to predict, we must prepare for them nonetheless.

The imperative for comprehensive risk controls

Since recessions tend to impact small businesses disproportionately, resulting in increased stress on borrowers, an organized compliance and risk management function is critical for the survival of both small businesses and lenders. A small business can close within months during an economic downturn. The SBA played a major liquidity role after the Great Recession with alternatives to traditional financing, but the SBA relies on lenders to issue capital, and believes the decline in participants is a concern for the small business community.

Within the SBA, the Office of Credit Risk Management (OCRM) maximizes the efficiency of the SBA lending programs by effectively managing program credit risk, monitoring lender performance and enforcing lending program requirements. The increased sophistication of SBA lenders is causing OCRM to review market dynamics for areas of increased risk exposure. To be competitive in this market, all lenders must become more sophisticated and efficient. OCRM's risk-based strategy will help to identify inherent risk in the portfolio — but all market participants should analyze and control risk internally as well.

Risk assessment and compliance should be managed through consistent and compliant controls within all SBA lending processes, with a greater focus on the following functions:

This paper addresses critical controls within each of these processes.

Strategy

Shawn T. Andrews, Managing Director

Since “fewer lenders remain in operation, the small business community must become more nimble…" - SBA FY 2015 Agency Financial Report

The increasing competitiveness of the SBA marketplace — dominated by a very small number of lenders providing more than half the loans — requires the remaining participants to increase their strategic and technological sophistication or potentially risk obsolescence.

To be successful, lenders must become sophisticated in their approach to strategy and implementation of technology. As the SBA pointed out in the FY 2015 *Agency Financial Report*, since “fewer lenders remain in operation, the small business community must become more nimble to finding capital, including through online tools, and the SBA must provide this support in an ever-changing economy.”

Technology will continue to increase in importance, resulting in dramatic differences in lender volume and loan performance. Technology will impact everything from lender delivery of loans to SBA processing and approval of applications.

Ultimately, each institution must identify the best type of borrower for its culture and execute on how to most efficiently access that market. Identifying key markets and industries while maintaining robust risk management and compliance is critical for both operational and regulatory success. OCRM will continue to focus on identifying and managing the risk to the program.

To build a compliant and scalable SBA lending platform, lenders must first define their strategy — and then implement sufficient technology to allow it to meet the strategy. In order for the SBA to meet its objective to drive increased lending by a larger number of lender participants, it is imperative that more lenders adopt a well-defined strategy supported by technology and a risk-aware culture.

To formulate a comprehensive strategy, lenders must answer four questions.

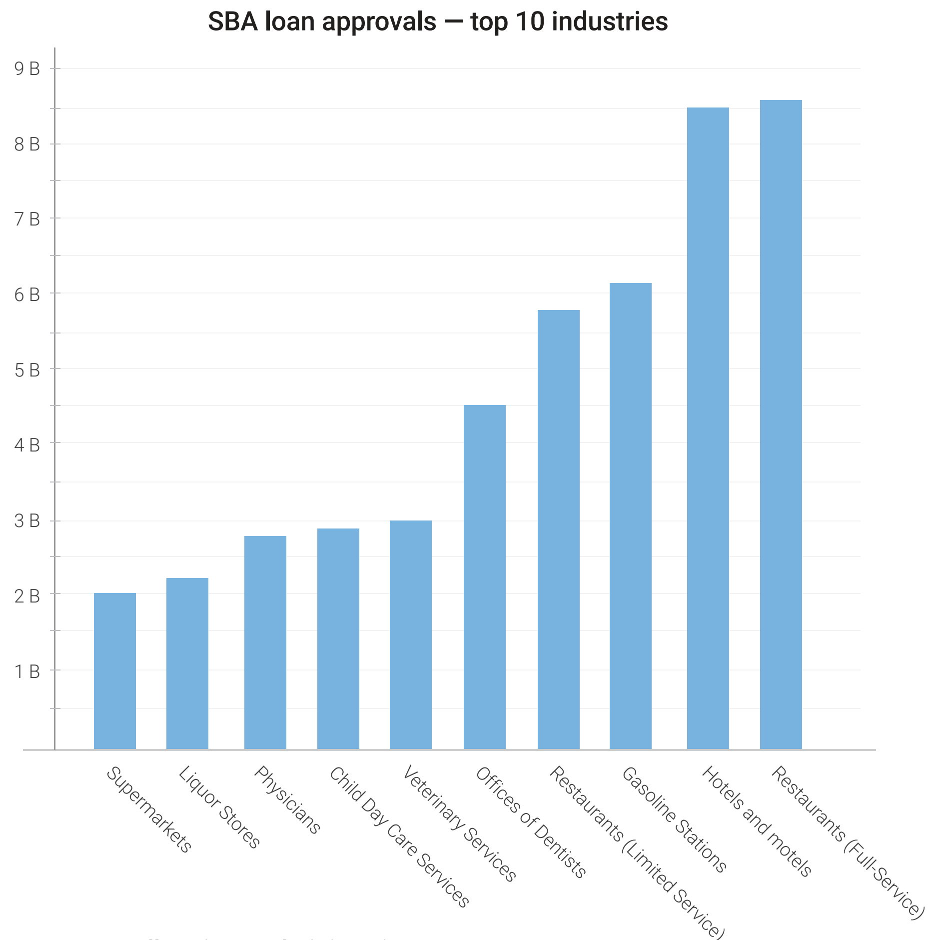
Why participate?

Lenders should start by asking “Why do we want to participate in the SBA 7(a) Loan program?” Some of the most popular reasons are to generate fee income, provide more favorable structures for borrowers (amortization, collateral coverage) and to assist underserved communities and/or achieve community reinvestment goals.

The top 10 industries represent more than 30% of all SBA loans by dollar volume.

What type of borrower?

Next, lenders should ask "What type of loans do we want to fund?" Responses often include geographic focus and use of proceeds (such as business acquisitions, equipment purchase, real estate purchase, or small loans). Industry focus is also an important consideration. The following chart summarizes the top 10 industries with the largest number of SBA loans by dollar volume since 2004. These industries represent more than 30% of all SBA loans by dollar volume over this 10-year period.



SOURCE - Small Business Administration

How will we originate?

Once the lender understands "why" they are participating in the program and "what" type of borrowers they seek, they must ask "How will we originate these loans?" Responses often include branch networks and internal business development, strategic partnerships, loan agents (loan brokers and investment bankers) and online or marketplace origination. Technology decisions are playing an increasingly important role in the competitive differentiation of SBA lenders.

Sophisticated lenders succeed by increasingly relying on multiple technologies to originate loans, such as:

- **Marketing technologies** — from CRM and marketing automation to social media
- **Operational technologies** — from file sharing and cloud collaboration to electronic signatures
- **Analytical technologies** — such as credit scoring for both origination and portfolio management

How will we control risk?

Once the lender answers "why" they are lending, "what" type of loans they want to fund and "how" they are going to originate these loans, the focus must then be on identifying the risk, quantifying the risk and ultimately creating controls to mitigate the risk. Lenders should ask "How will we control the risk, from both an operational and credit perspective?"

Typical answers include:

- Developing a comprehensive risk assessment
- Creating detailed credit policies
- Creating detailed operational policies and procedures by function
- Establishing accountability by measuring the results and reassessing ongoing risk

Processing

William McClain, Vice President, Credit & Processing

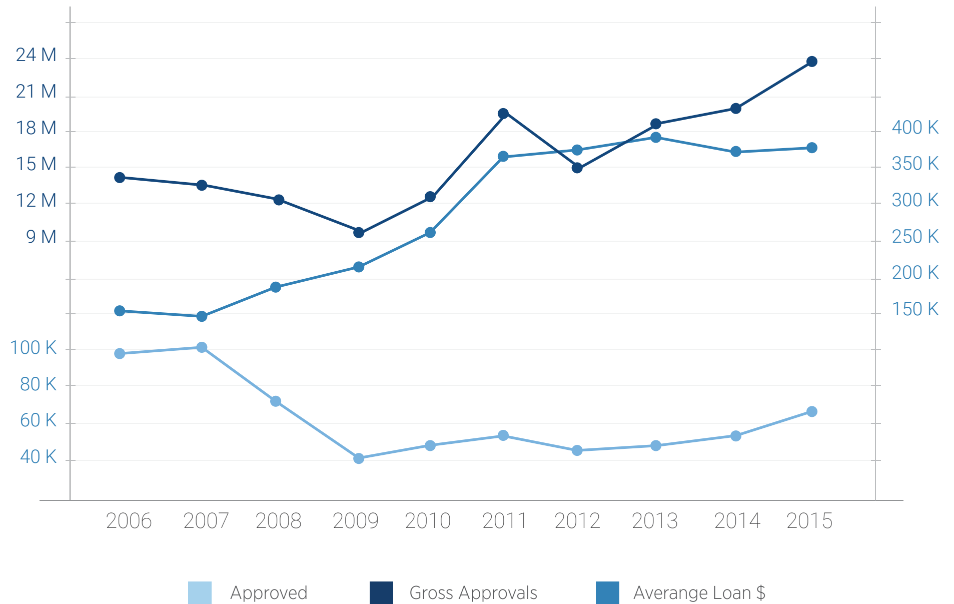
After a record year of approvals, innovations in processing technology promise to help improve both volume and risk management. Application packaging and SBA compliant loan closing is a time consuming and often frustrating process. To be successful, lenders must prepare and submit complete and accurate application packages as efficiently as possible.

Record year of approvals

It's likely that we'll see another significant dip in both SBA loan volume and credit performance during the next recession.

SBA 7(a) loans increased 23% in FY 2015 to $23.8 billion — a record year of approvals and the third consecutive year of growth in small business financing through the program. In FY 2015, the SBA approved more than 63,000 7(a) loans.

Approved loans, gross approvals & average loan amount



SOURCE - Small Business Administration

The SBA attributes the decreased number and amount of 7(a) loans approved in FY 2008 and FY 2009 to reduced demand for small business loans due to the economic uncertainty of the Great Recession and tightened loan standards imposed by lenders concerned about higher loan default risk. The increased number of loans approved in FY 2010 and FY 2011 are attributed to Recovery Act legislation that provided funding to temporarily reduce the 7(a) program's loan fees and increase the loan guaranty percentage to 90% for all standard 7(a) loans from up to 85% on loans of $150,000 or less and up to 75% on loans exceeding $150,000.

The fee subsidies and loan guaranty percentage were in place during most of FY 2010 and the first quarter of FY 2011. The increased number and amount of 7(a) loans approved in FY 2013 and FY 2014 vs. FY 2012 are most likely due to improving economic conditions.

The average approved loan amount in FY 2015 was $376,000, essentially flat with the prior year. The size of the average loan grew by double digits 2008-2011, and has settled into roughly the same range ever since.

It's likely that we'll see another significant dip in both SBA loan volume and credit performance during the next recession, which it's wise to plan for now. As mentioned previously, the median of economists surveyed by Bloomberg expect the next recession to hit in 2018. Keeping this in mind, it is imperative that lenders maintain a disciplined risk management process to ensure credit risk and charge-offs are adequately managed during the next downturn.

Smarter, bolder, more accessible processing

The implementation of technology is one element of the increased lender sophistication that will be necessary for success in 2016 and beyond.

While we'll likely see another volume dip with the next economic downturn, this may be muted by the increasing reliance on technology. The SBA recognizes that it needs more technological advancement to help shape how small businesses access capital. Since taking over as SBA administrator in 2014, Maria Contreras-Sweet has been transforming the agency into one that also stands for smart, bold and accessible — enabled by technology to improve efficiency. The agency launched SBA One as a new online lending platform to help small businesses access capital faster with new processes expected to include improvements such as borrower application portals and online signatures. In FY 2015, the SBA made significant progress in the modernization of the agency's capital access program — 100% of loan applications are now processed electronically.

Some SBA One modules are currently available for lender use — especially for increasingly important risk management functions. SBA One delivers additional data on 7(a) loans and information to improve program risk management, streamline payment and reporting, and increase the efficiency of secondary market functions. This is in addition to previously launched underwriting capabilities to promote more equitable distribution of capital and faster SBA response time on 7(a) loan applications using a predictive credit scoring model on smaller dollar loans. As more modules of SBA One become available, additional lenders may be interested in participating in the program. The implementation of technology is one element of the increased lender sophistication that will be necessary for success in 2016 and beyond. But, as we mentioned above, to be successful technology must be implemented utilizing a strategic framework that first defines objectives and establishes effective controls.

Loan secondary market sales

Michael Breckheimer, Vice President, Risk Management

Low constant prepayment rates and high demand for quality assets has resulted in premiums near historic highs throughout FY 2015.

Another key aspect of the "record volume by fewer lenders" story going into 2016 is high premiums. Loan premiums are not widely published. This often makes it difficult for many lenders to ensure they are getting the highest secondary market premium. To be more competitive, lenders should prepare bid sheets and submit the opportunity to multiple investors. Only through consistent interaction with the secondary market can lenders gain current knowledge of the most active investors and the highest premiums based on the structure of each loan.

Premiums near historic highs

Low constant prepayment rates and high demand for quality assets has resulted in premiums near historic highs throughout FY 2015. Based on a sample of more than $150 million in SBA 7(a) loans sold in calendar year 2015, the table below shows bids on 25-year loans were as high as 119.755 and bids on 10-year loans were as high as 115.410. The sustained high premiums experienced since 2012 may be an additional factor driving increased participation in the SBA 7(a) program by certain lenders.

Bids on 25- and 10-year loans			
Term	Spread	High	Low
25 Year	P+ 2.75%	119.755	113.935
10 Year	P+ 2.75%	115.410	108.700

SOURCE - Windsor Advantage

Lender-controlled factors to consider

Several factors impact the level of secondary market premiums and help control risk. Market forces such as supply and demand and changes in interest rates cannot be controlled by lenders, but the following lender-controlled factors should be considered when structuring loans and estimating potential premiums:

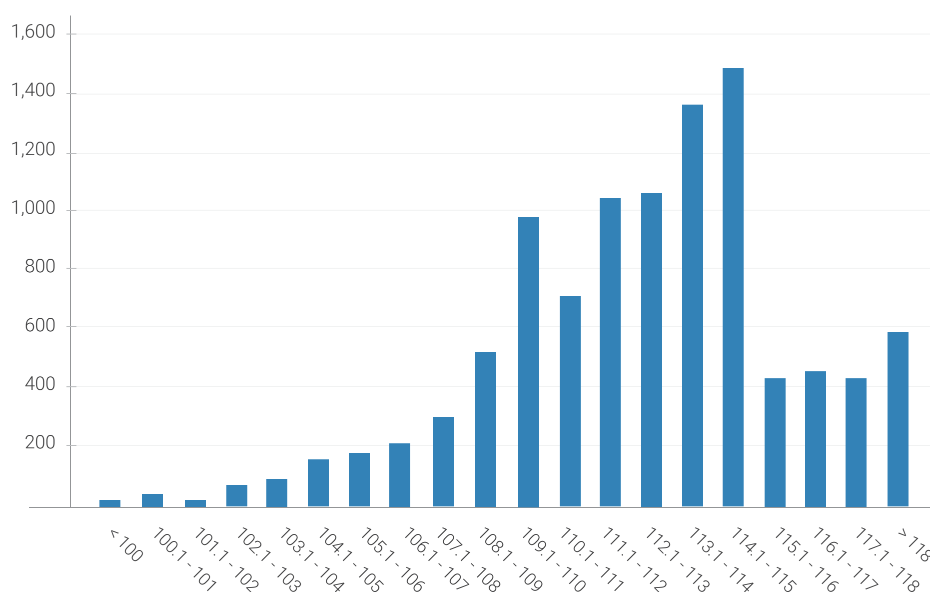
- **Term** - Longer terms receive higher premiums. 25-year terms result in a higher premium than 10-year terms.
- **Spread over Prime** - Maximum spread over prime is 2.75% on loans over $50,000. Maximum spreads receive the highest premium.
- **Adjust Period** - Quarterly and monthly adjusts receive the highest premiums, versus annual adjust and fixed rate loans.
- **Size** - The size of the loan impacts the premium, with larger loans receiving less premium.

According to discussions with the largest SBA loan poolers, approximately 40% of all 7(a) loans are sold into the secondary market, and 90% of the sold loans are poolable vs. non-poolable. There are slightly more 25-year loans than 10-year, and 85% adjust quarterly vs. monthly.

Per the SBA, in FY 2014, $6.1 billion in loans settled, consisting of 10,172 loans, for total settlement proceeds of $6.8 billion, including premiums.

Per Colson Services, the following chart illustrates the distribution of prices paid at or above par in Fiscal Year 2014.

Distribution of prices paid at or above par



SOURCE - Colson Services

Unguaranteed portion sales under scrutiny

FY 2015 saw an increasing, though still small, amount of activity in the sale of unguaranteed portions of 7(a) loans. OCRM is focused on understanding the risk profile of lenders that sell the guaranteed portion of loans. This can only mean that the sale of the unguaranteed portion of loans will result in increased OCRM scrutiny and must be treated with the same — or higher — levels of risk mitigation and control to ensure performance success as well as success with the regulators.

Servicing

Leonard L. Ray, Director of Servicing

The likelihood of recession in the next few years highlights the need to improve servicing risk management controls while keeping an eye on key metrics.

The SBA's 7(a) loan portfolio is continuing its steady growth trend along with the growth of the economy. Delinquency rates are also comfortably low — giving us a fairly confident outlook for low charge-offs in FY 2016. But the high likelihood of recession in the next few years tells us the time is now to improve servicing risk management controls while keeping an eye on these metrics.

Servicing requirements are extensive and non-compliance with reporting can result in lengthy and complicated reconciling items with the SBA, as well as the potential for repairs and denials of guarantees. Lenders should ensure they are servicing loans well in accordance with the standards set forth by the SOP 50 57 2 and the lender's internal policies and procedures.

7(a) portfolio continues steady growth trend

The SBA oversees a steadily growing small business 7(a) loan guarantees portfolio of more than $73 billion. While precise measurements of the total small business credit market are not available, the SBA estimates that it is roughly $1 trillion, for outstanding bank loans of $1 million or less, plus credit extended by finance companies and other sources. The SBA 7(a) program's unpaid principal balance was about 7.3% of that amount, as of September 30, 2015.

The table below shows the total amount and growth of the 7(a) program's unpaid principal balance by fiscal year.

Unpaid principal		
Fiscal Year	**Balance**	**Change %**
2006	44,409,531,359	
2007	46,084,113,112	3.8%
2008	47,688,818,934	3.5%
2009	48,562,845,871	1.8%
2010	50,846,134,487	4.7%
2011	56,437,329,987	11.0%
2012	60,078,682,351	6.5%
2013	63,671,116,552	6.0%
2014	68,185,810,997	7.1%
2015	73,019,422,595	7.1%

SOURCE - Small Business Administration

According to the SBA, three primary factors contributed to recent outstanding balance growth:

- Continuous economic growth
- Increasing business financial stability
- Statutory changes to SBA loan programs

Status of the portfolio is classified by the Office of Credit Risk Management as of January 31, 2015 as follows:

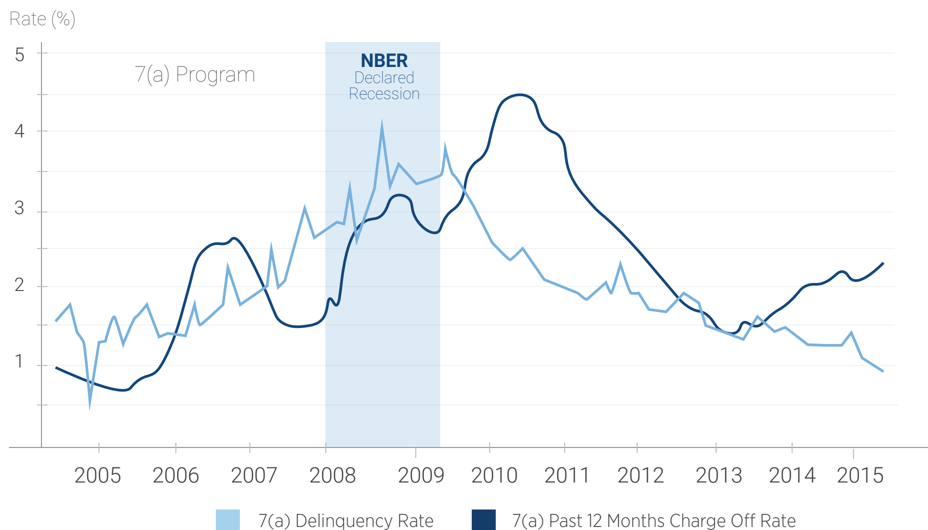
- 87.7% Current
- 1.95% Stressed (Past Due, Deferred and Delinquent)
- 10.35% Active Default (Active Purchase, Liquidation)
- 2,647 active lenders

These metrics may be expected to worsen in the next downturn, along with the slower portfolio growth we saw during the Great Recession. But there is much within the control of lenders to prepare well and mitigate risk in 2016.

Delinquency rates declining dramatically

Declining delinquency rates — borrowers who are late on their payments — are a positive indicator for the financial performance of any loan portfolio. Delinquency rates are a leading indicator of the SBA's charge-off rate — the rate of dollars spent to cover loans that defaulted — so they're a good metric to track for an outlook on future liabilities of the SBA and taxpayers for these programs.

SBA 7(a) delinquency vs. charge off rate



SOURCE - Small Business Administration

As mentioned in the SBA's *Annual Financial Report*, the SBA states that delinquency rates are down for all business loans, and have been steadily declining from cyclical peaks in late 2009, due to modest economic growth, strong profit performance and tighter lending standards by financial institutions during the past several years.

A sign of a generally improving small business environment, the national unemployment rate has steadily improved from a 10% peak in late 2009. The improved hiring signals business expansion and increased demand for small businesses that survived the recession — improving their ability to repay debt obligations.

Delinquency rates for the SBA's major loan programs followed this national downward trend — the 7(a) loan program declined from a 3.9% peak in January 2009 to 0.6% recorded in July 2015. While this is good but predictable news, it also signals the need for improved risk management in preparation for the next downturn. We will inevitably have another recession and see the delinquency rate spike again, as it did in FY 2009.

Intensive servicing

Michael Breckheimer, Vice President, Risk Management

Lenders must manage this task well and ensure that all reported events are processed properly for the necessary approvals and that the file is documented adequately.

Non-compliance with intensive servicing requirements — for both modifications and liquidations — can result in the potential for repairs and denials of guarantees. Intensive servicing consists of interim servicing actions with proper file documentation, workout and modification support, and execution of liquidation and litigation plans.

To mitigate risk, lenders must manage this task well and ensure that all reported events are processed properly for the necessary approval and that the file is documented adequately to protect the lender in the case of liquidation. It is considered best practice for lenders to maintain direct relationships with the SBA and an up-to-date understanding of current SBA requirements.

Three intensive servicing themes to watch in 2016:

- The subsidy rate as a matter of debate
- The continuation of the purchase rate's 5-year decline
- Use of the new Guaranty Purchase Package Tabs

Subsidy rate a matter of debate

The SBA has set a zero subsidy rate goal for its loan guaranty programs, which occurs when the SBA's loan guaranty programs generate enough revenue through fee collections and recoveries of collateral on defaulted loans they've purchased to not require appropriations to issue new loan guarantees. This has been a challenge in some years, so this will be one to watch in the year ahead.

The Congressional Research Service reports that the SBA did not request appropriations to subsidize the cost of any of its loan guaranty programs from 2005 to 2009. But, loan guaranty fees and loan liquidation recoveries did not generate enough revenue to cover loan losses in the 7(a) loan guaranty program FY 2010-FY 2013, requiring appropriations to address the shortfalls. In 2015, the SBA did not require a credit subsidy appropriation for the 7(a) loan program, according to the agency's FY 2015 Agency Financial Report.

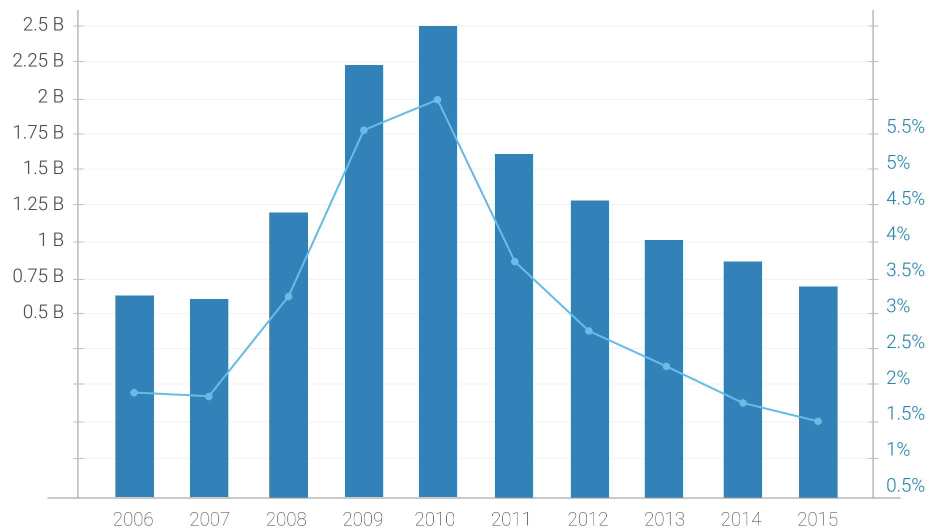
They instead utilized fees to cover the costs. This was accomplished despite zeroing out fees for 7(a) loans of $150,000 or less, beginning in FY 2014 and extending to FY 2015. The Obama administration's FY 2016 budget request indicated that the 7(a) loan guaranty program will not need appropriations for business loan credit subsidies in FY 2016.

Congressional debates have arisen questioning whether it is appropriate to require borrowers of larger 7(a) loans to essentially subsidize borrowers of smaller 7(a) loans they might be directly competing with. One suggestion has been to reduce fees across-the-board regardless of loan size.

Purchase rate 5-year decline likely to continue

Purchases of defaulted guaranteed loans dropped again for the 5th straight year — falling from $828 million, or 1.33% of unpaid principal balance (UPB) in FY 2014, to $714 million, or 1.04% of UPB in FY 2015. The SBA expects this trend to continue as US economic recovery continues. The following table illustrates the trend in loans purchased by the SBA from FY 2006 through FY 2015:

Loans purchased trend — FY 2006-2015



SOURCE - Small Business Administration

Use of new Guaranty Purchase Package Tabs

The SBA recently released its new Guaranty Purchase Package Tabs for small loans under $350,000, commonly referred to as the 10-tab Liquidation Form. Released in the beginning of Q4 2015 and effective for all loans which closed on or after January 1, 2014 and entered liquidation on or after August 1, 2015, the Small Loan Guaranty Purchase Package is a detailed, fillable PDF aimed at bringing greater transparency to the submission process by providing additional detail to the servicing centers responsible for making the decision on whether to honor a lender's SBA guaranty for small loans.

The package maintains the consistency of 10 tabs and has expanded from 13 pages to 35 pages in total length.

The new Small Loan Purchase Package places stricter standards on the SBA's initial purchase review documentation requirements. The goal of the new submission format is to reduce the turnaround time of purchase decisions by the servicing centers by placing more responsibility on the lender for initial preparation of the submission package. The underlying impact of this new tab is a greater responsibility for the lender to ensure their documentation is organized and complete up front.

Regulatory Compliance

Shawn T. Andrews, Managing Director

All market participants must proactively analyze and control risk for their own success.

Regulatory scrutiny is increasing along with SBA loan volume and the competitiveness of lenders — a trend we expect to continue. The increased sophistication of lenders is causing the SBA Office of Credit Risk Management (OCRM) to review market dynamics for areas of increased risk.

OCRM conducts a continuous, risk-based, off-site analysis of SBA lenders through the Loan/Lender Monitoring System. It also performs strategic on-site reviews of lender activities, including their SBA lending performance and compliance with program rules and regulations.

As SBA loan volume has grown for the third consecutive year, OCRM has also made progress on lender oversight:

- **Onsite reviews are now conducted on the highest-risk lending participants due to FY 2013 improvements.** The SBA developed risk profiles and lender performance thresholds, as well as a select analytical review process to allow for virtual risk-based reviews. The agency updated its lender risk-rating model to better stratify and predict risk, and conducted test reviews under the new risk-based review protocol. The SBA has indicated that many of these full-scope reviews may not require the SBA to be onsite in the future due to the SBA's increased reliance on online portals and file sharing technology.

- **Monitoring and verification of lender corrective actions improved in FY 2014.** The SBA developed corrective action assessment procedures, finalized a system to facilitate the corrective action process, and populated the system with lender oversight results requiring corrective action.

- **Office of Credit Risk Management (OCRM) engaged contractor support to expand on its corrective action follow-up process in FY 2015.** OCRM also issued its FY 2015 Risk Management Oversight Plan last year, including plans to conduct 170 corrective action reviews between 7(a) and 504 lenders. OCRM planned almost 1,400 reviews consisting of almost 400 RBRs and more than 1,000 Delegated Authority reviews last year.

- **OCRM plans to increase the level of review in FY 2016**

Lenders must make SBA regulatory support a priority

A focus on strategy and technology is key to competing in this market, but more than ever — compliance is critical to a successful and sustainable SBA lending strategy. OCRM will help to identify inherent risk in the portfolio, but all market

participants must proactively analyze and control risk for their own success. To build a compliant and scalable SBA lending platform, a lender must first define its strategy and then implement sufficient technology to allow it to meet the strategy.

Lenders must provide comprehensive and proactive support for all types of examinations, not just OCRM Risk-Based Reviews, but also FDIC Safety and Soundness examinations and internal audits and file reviews. Lenders are strongly recommended to participate in customized training, both internal and external, and to join trade associations. A lender should consider becoming an active member of the National Association of Government Guaranteed Lenders (NAGGL) and participating in its national and regional trainings.

OCRM risk review elements, including the PARRiS score and compliant use of eligible agents, should be used for continuous lender self-evaluation.

Lender risk self-assessment

Shawn T. Andrews, Managing Director

Whether lenders use the framework detailed in this outlook or design their own — lender risk self-assessment is critical to SBA lending success in 2016 and beyond.

Increased lender sophistication drove SBA loan growth last year and will continue to be a factor in 2016. The competitiveness of the marketplace, dominated by a small number of lenders providing more than half the loans, requires that remaining participants increase their strategic and technological sophistication to better control risk.

A well-designed compliance framework must be built around comprehensive risk assessment and the thoughtful implementation of controls. In the SBA 7(a) market, this is best accomplished by establishing detailed processes by functional area. Risk should be managed through consistent and compliant controls within all SBA lending processes, with a greater focus on the following in 2016:

- **Strategy**
- **Processing**
- **Secondary market sales**
- **Servicing**
- **Intensive servicing**
- **Regulatory support**

Every SBA lender should start by answering the four SBA strategy development questions as outlined on pages 5-7:

- **Why do we want to participate in the SBA 7(a) Loan program?**
- **What type of loans do we want to fund?**
- **How will we originate these loans?**
- **How will we control the risk (both operational and credit)?**

With the median of 31 economists surveyed by Bloomberg now expecting a recession in 2018, the time for better risk controls is now. Whether lenders use the framework detailed in this outlook or design their own — lender risk self-assessment is critical to SBA lending success in 2016 and beyond. By focusing on growth through strategy and technology with a foundation in risk management and compliance, lenders increase the likelihood of success through increased volume, credit quality and regulatory compliance.

About Windsor Advantage, LLC

Windsor Advantage offers banks and credit unions an outsourced SBA department focused on the development and implementation of innovative lending strategies.

Windsor provides a comprehensive SBA loan department to lenders nationwide. Services include prequalification, loan structuring, application packaging, loan closing, secondary market sales, loan servicing, SBA compliance and regulatory exam support. Windsor also provides continuing training and technical assistance to lenders at no cost.

With more than 100 years of collective SBA lending experience, cutting edge systems and rigid controls, Windsor Advantage is uniquely qualified to support its clients to develop and execute a thoughtful and profitable SBA 7(a) loan program. Windsor Advantage is based in Chicago, Illinois, with offices in Indianapolis, Los Angeles and Boston. For more information, call **312-724-6425** or visit www.WindsorAdvantage.com.