

Interested persons are invited to submit written data, views, and arguments regarding whether the proposed rule change should be approved or disapproved by February 23, 2021. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by March 3, 2021.

The Commission asks that commenters address the sufficiency of FICC's statements in support of the proposed rule change, which are set forth in the Notice,³³ in addition to any other comments they may wish to submit about the proposed rule change.

Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-FICC-2020-017 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. All submissions should refer to File Number SR-FICC-2020-017. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal

proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

³³ See Notice, *supra* note 3.

office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2020-017 and should be submitted on or before February 23, 2021. Rebuttal comments should be submitted by March 3, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁴

J. Matthew DeLesDernier,

Assistant Secretary.

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SMALL BUSINESS ADMINISTRATION

[Docket No: SBA-2020-0011]

SBA Lender Risk Rating System

AGENCY: Small Business Administration.

ACTION: Notice of revised Risk Rating System and Lender Portal definition of Confidential Information; request for comments.

SUMMARY: This notice implements changes to the Small Business Administration's (SBA's) Risk Rating System. The Risk Rating System is an internal tool to assist SBA in assessing the risk of the SBA loan operations and loan portfolio of each active 7(a) Lender and Certified Development Company (CDC). Consistent with industry best practices, SBA recently redeveloped the model used to calculate the composite Risk Ratings of lenders and the risk associated with each SBA loan to ensure that the Risk Rating System remains current and predictive as technologies, the economy, and available data evolve. In conjunction with the redevelopment of the Lender Risk Rating, SBA is updating the Lender Portal and its definition for Confidential Information. SBA is publishing this notice with a request for comments to provide the public with an opportunity to comment. **DATES:** This notice is effective February 16, 2021.

Comment Date: Comments must be received on or before April 19, 2021.

ADDRESSES: You may submit comments, identified by Docket number SBA-2020-0011 by using any of the following methods:

- **Federal eRulemaking Portal:** <http://www.regulations.gov>. Identify comments by "Docket Number SBA-2020-0011, SBA Lender Risk Rating System," and follow the instructions for submitting comments.

- **Email:** Eddie Ledford, Deputy Director, Office of Credit Risk Management, U.S. Small Business Administration, at edward.ledford@sba.gov.

All comments will be posted on <http://www.Regulations.gov>. If you wish to include within your comment confidential business information (CBI) as defined in the Privacy and Use Notice/User Notice at <http://www.Regulations.gov> and you do not want that information disclosed, you must submit the comment by either Mail or Hand Delivery and you must address the comment to the attention of Eddie Ledford, Deputy Director, Office of Credit Risk Management, U.S. Small Business Administration. In the submission, you must highlight the information that you consider is CBI and explain why you believe this information should be held confidential. SBA will make a final determination, in its discretion, of whether the information is CBI and, therefore, will be published or not.

FOR FURTHER INFORMATION CONTACT: Eddie Ledford, Deputy Director, Office of Credit Risk Management, U.S. Small Business Administration, 409 Third Street SW, 8th Floor, Washington, DC 20416, (202) 205-6402.

SUPPLEMENTARY INFORMATION:

I. Background Information

(A) Introduction to the Risk Rating System

The Risk Rating System is an internal tool that uses data in SBA's Loan and Lender Monitoring System (L/LMS), borrower data provided by Dun & Bradstreet (D&B), and certain macroeconomic factors to assist SBA in assessing the risk of the SBA loan performance of each 7(a) Lender and CDC (each, an SBA Lender) on a uniform basis and identifying those SBA Lenders whose portfolio performance, or other lender-specific risk-related factors, may demonstrate the need for additional SBA monitoring or other action. The Risk Rating System also serves as a vehicle to measure the aggregate strength of SBA's overall 7(a) loan and 504 loan portfolios and to assist SBA in managing the related risk. SBA uses the Risk Rating System to make more effective use of its lender review and assessment resources. The Risk Rating System is available to SBA Lenders through SBA's Lender Portal

³⁴ 17 CFR 200.30-3(a)(31).

and provides SBA Lenders feedback and timely insight into the expected performance of their SBA portfolio.

Under SBA's Risk Rating System, SBA calculates a Forecasted Purchase Rate (FPR) for each SBA Lender. The FPR projects the percent of an SBA Lender's SBA loan portfolio that will be purchased by SBA over the next 12 months. An SBA Lender's FPR can be used to predict the dollar amount of an SBA Lender's purchases. The FPR is calculated using several component variables or factors. The component variables were developed using step-wise regression analysis to determine the components that provided a linear regression formula that was most predictive of actual purchases over a one-year period. The FPR is also used to assign each SBA Lender a composite Risk Rating (Lender Risk Rating or Lender Purchase Rating) of 1 to 5 based on geometric sequencing. The rating reflects SBA's measurement of the SBA Lender's potential portfolio risk. In general, a rating of 1 indicates least risk and that the least degree of SBA oversight is likely needed, while a 5 rating indicates highest risk and that the highest degree of SBA oversight is likely needed.

SBA first introduced the Risk Rating System as a proposal for comment in the **Federal Register** on May 1, 2006 (72 FR 25624). SBA published the final notice in the **Federal Register** on May 16, 2007 (72 FR 27611). On March 1, 2010, SBA published a notice describing revisions to the Risk Rating System (75 FR 9257), with a correction notice published on March 18, 2010 (75 FR 13145). In 2014, SBA revised the system again and published a notice and request for comments on April 29, 2014 (79 FR 24053).

(B) Redevelopment

Typically, under industry best practices, custom credit scoring models are redeveloped approximately every three to five years to reflect changing conditions, portfolio shifts, and to incorporate additional data that may have become available. Accordingly, SBA redeveloped the Risk Rating System in 2010 and 2014 and completed the latest redevelopment in 2019. This most recent redevelopment, like the earlier ones, is consistent with best practices. Given the unprecedented economic impact caused by the pandemic in 2020, SBA will initiate the next redevelopment in late 2021 to ensure that SBA's Risk Rating System provides an accurate and up to date measurement of lenders' SBA portfolio performance.

The goals of this redevelopment were to: (i) Maintain or improve the accuracy of the current Lender Risk Rating (LRR) and FPR; (ii) maintain or increase transparency to the lender without sacrificing predictive power; (iii) incorporate the latest SBA performance data; and (iv) evaluate other variables that can provide additional insight into lender risk. During this redevelopment, SBA reviewed over 200 potential variables from SBA's L/LMS archive along with nearly 400 potential variables from D&B sources. SBA selected these potential variables for review based on its experience working with such models over the past several years. The D&B variables included attributes from its detailed trade repository providing the highest level of trade data resolution. The variables were then run through rigorous statistical techniques and the most predictive combinations of variables were chosen as components in the redeveloped Risk Rating model.

II. The Redeveloped Risk Rating Model

SBA followed common industry best practices and internal control standards when redeveloping and validating the Risk Rating model. The redeveloped model was independently validated by personnel other than the staff responsible for the redevelopment. The redeveloped model used to calculate the composite Risk Ratings is an updated version of the previous models. Like the previous models, it is a custom credit scoring model that predicts the likelihood of an SBA Lender's loan purchases over the next 12 months. Like the 2014 model, the redeveloped model uses a segmentation approach to loan scoring. The model groups the loans into loan segments¹ and then applies a formula to the loan predictive of purchase for that applicable segment. (See Section IV below for more information on the segments and their formulas). The new model thus predicts the probability of default for each loan in an SBA Lender's portfolio (Projected Purchase Rate or PPR) and then multiplies this probability by the outstanding loan amount at the time the ratings are formulated. The individual loan-level PPRs are then aggregated to obtain the SBA Lender's overall FPR, which is then used to calculate the SBA Lender's composite Risk Rating [1–5].

The most notable changes in the redeveloped Risk Rating System are:

1. Updated components in the regression formulas. The redeveloped

model continues to use loan-level data (provided by the SBA Lenders and SBA's own data), external risk assessment data (provided by D&B) that is derived from third party business and consumer credit bureau data, and macroeconomic data. New loan level data components include, for example: (i) NAICs sector; (ii) new or existing business indicator; and (iii) whether sold on Secondary Market. The new external data components include, for example, (i) commercial credit score; (ii) number of UCC filings against business; and (iii) PAYDEX previous three months.² Only one macroeconomic data component continues to be used—the State Unemployment Rate. The updated components add predictive value to the Risk Rating model.

2. Slight Revisions in segmentation. The 2014 model used seven segments, each with its own rating formula (five for 7(a) Lenders; two for CDCs). The 2019 redeveloped model eliminated segmentation of 7(a) fixed-term loans based on loan size, collapsing the model's segmentation from seven to six (four for 7(a) Lenders and two for CDCs). Under the new model, loans are segmented by loan type (revolver-type or fixed-term) and current payment status. The segments are as follows: (i) 7(a) Segment 1—revolver type loans in current payment status; (ii) 7(a) Segment 2—revolver-type loans in non-current payment status; (iii) 7(a) Segment 3—fixed-term loans in current payment status; (iv) 7(a) Segment 4—fixed-term loans in non-current payment status; (v) 504 Segment 1—loans in current payment status; and (vi) 504 Segment 2—loans in non-current payment status. A loan's PPR formula is calculated based on a combination of components that is uniquely predictive for loans in that segment. See paragraph IV(B) for a detailed discussion of the six segments and the update of components used in each segment.

3. Evolution of the Lender Portal. Since the 2014 redevelopment, SBA has been significantly expanding the content of the Lender Portal. In addition to the LRR/Lender Purchase Rating (LPR), the Lender Portal now includes the SBA Lender's FPR, the FPR's components or factors, SBA Lender's PARRiS or SMART Scores (as applicable)³ and the PARRiS/SMART

² D&B collects and aggregates all trade data provided to it by over 30,000 trade credit sources on a monthly basis for its entire global database of commercial entities.

³ PARRiS and SMART refer to SBA's risk measurement methodologies and scoring guides used in conjunction with SBA's Risk-Based Review protocol. PARRiS is an acronym for the specific risk

¹ For example, 7(a) fixed term loans in current payment status or 504 fixed term loans in non-current payment status.

Score components. In addition, the Lender Portal now includes much of the information that is contained in SBA Lender's Lender Profile Assessment (LPA) (e.g., loan vintage analysis, charting of loans by delivery method, Cumulative Net Yield chart, loan concentration chart, Secondary Market sales chart and other lender information). The Lender Portal provides SBA Lenders timely feedback on their expected portfolio performance. In conjunction with the redevelopment and expansion of Lender Portal content, SBA is updating its definition of Confidential Information. See Section IV for more information on the Lender Portal and the updated definition of Confidential Information.

The redeveloped Risk Rating System is one of several tools in SBA's oversight framework. SBA uses the Risk Rating, the FPR/LPR, SBA Lender Reviews/Examinations, and PARRiS and SMART components and scores in conjunction with other risk related information to assess SBA Lender risk and performance. For example, SBA may consider rapid growth in loan volume that may skew metrics and other factors in considering an SBA Lender's overall risk.

III. Request for Comments

This notice provides program participants and other parties with an explanation of the components and a description of other modeling enhancements. SBA is soliciting comments on all aspects of this notice, including but not limited to the components and enhancements. These changes will be effective upon publication of this notice and are expected to be incorporated in the Lender Portal update in February 2021 for the quarter ending December 31, 2020.

IV. SBA Lender Risk Rating System

(A) Overview

Under SBA's Risk Rating System, SBA assigns all SBA Lenders a composite Risk Rating. The composite rating reflects SBA's assessment of the SBA Lender's potential risk. It is based on the loan-level probability of purchase over

areas or components that SBA reviews for 7(a) lenders. They are Performance, Asset Management, Regulatory Compliance, Risk Management, and Special Items. SMART is the acronym for the risk areas that SBA reviews in the 504 program. They are Solvency and Financial Condition, Management and Board Governance, Asset Quality and Servicing, Regulatory Compliance, and Technical Issues and Mission. For a more detailed discussion on PARRiS and SMART, see SOPs 50 53 2 and 50 10, which incorporate SBA Notices on Risk-Based Review Protocols.

the next 12 months, as calculated by SBA.

The Risk Rating System also assigns each SBA-guaranteed loan a Projected Purchase Rate (PPR) using a unique set of components that SBA has determined to be predictive for that loan's segment (see Section IV.B. on Segmentation for further details below). The individual loan-level PPR is then multiplied by the total outstanding balance of the loan in order to approximate the SBA Lender's exposure for that loan. The sum of all those values for Lender's SBA loans is an estimation of the total default dollars for the SBA portfolio of the SBA Lender in the next 12 months. That number is then divided by the total outstanding balances of all loans in the above calculation to obtain the SBA Lender's overall Forecasted Purchase Rate (FPR). SBA then assigns a composite rating of 1 to 5 based on the SBA Lender's overall FPR using geometrically sequenced category thresholds. Geometrically sequenced categories contain thresholds that are a multiple of the prior category. The category boundaries represent a doubling of the prior category (with the exception of the "zero" threshold). Geometric categorizations aim to delineate a non-linear distribution more evenly.

SBA updates the Lender Risk Ratings and FPRs on a quarterly basis, using refreshed SBA Lender data. The primary purpose of the Risk Rating and FPR is to focus SBA's oversight resources on those SBA Lenders whose portfolio performance or other lender-specific risk-related factors demonstrate a need for further review and evaluation by SBA. SBA generally does not intend to use the Risk Rating or FPR as the sole basis for taking a formal enforcement action against an SBA Lender.

All SBA Lenders have on-line access to their Risk Ratings, FPR (including its components or factors), PARRiS or SMART Score (and its components), and other risk related information through the Lender Portal. In addition, an SBA Lender can view the loan-level components utilized to generate each loan's PPR. For information on gaining access to the Lender Portal, see SBA SOP 50 10 and the Lender Portal log-on page at <https://sbalenderportal.dnb.com>.

(B) Segmentation

SBA's Risk Rating System uses a segmentation approach to calculate the PPR of each loan in an SBA Lender's SBA portfolio. The loan segments for the 7(a) Program are as follows:

1. Revolver-type loans in current payment status,

2. Revolver-type loans in non-current payment status,

3. Fixed-term loans in current payment status, and

4. Fixed-term loans in non-current payment status.

The loan segments for the 504 Loan Program are:

1. Loans in current payment status, and

2. Loans in non-current payment status.

A loan's PPR is calculated based on a combination of components that is uniquely predictive for the loans in that segment. Many of the segment components are the same as in the prior model, however, some are new. The components used in each segment are as follows:

7(a) Segment 1—Revolver-type loans in current payment status:

- (a) Current Small Business Predictive Score (SBPS)
- (b) Months on Book (MOB)
- (c) Loan Term
- (d) Percent of Accounts 30 Days or More Past Due
- (e) Outstanding Loan Balance
- (f) New or Existing Business Indicator
- (g) Total Employees
- (h) NAICS Sector
- (i) 12-Month Originating Lender Purchase Rate
- (j) Overall Interest Rate
- (k) Average State-level Unemployment Rate

7(a) Segment 2—Revolver-type loans in non-current payment status:

- (a) Current SBPS
- (b) MOB
- (c) Loan Term
- (d) Loan Status
- (e) SBA Share of Outstanding Loan Balance
- (f) PAYDEX Previous 3 Months
- (g) Average State-level Unemployment Rate

7(a) Segment 3—Fixed-term loans in current payment status:

- (a) Current SBPS
- (b) MOB
- (c) Loan Term
- (d) Number of Current Accounts
- (e) Sold on Secondary Market Indicator
- (f) Spread Interest Rate
- (g) New or Existing Business Indicator
- (h) 12-Month Originating Lender Purchase Rate

7(a) Segment 4—Fixed-term loans in non-current payment status:

- (a) Current SBPS
- (b) MOB
- (c) Loan Status
- (d) Percent of Accounts 30 Days or More Past Due
- (e) 12-Month Originating Lender

- Purchase Rate
 504 Segment 1—Loans in current payment status:
- (a) Current SBPS
 - (b) MOB
 - (c) Loan Term
 - (d) Commercial Credit Score
 - (e) NAICS Sector
 - (f) Number of UCC Filings
 - (g) 12-Month Lender Purchase Rate
 - (h) Average State-level Unemployment Rate
- 504 Segment 2—Loans in non-current payment status:
- (a) Current SBPS
 - (b) Loan Status
 - (c) Viability Score

The components were selected through statistical analysis using step-wise logistic regression to identify the combination of variables that are the most predictive for each segment of loans. The model is “multivariate,” meaning that an SBA Lender’s PPR (and thus its FPR and Risk Rating) is based on a combination of all components in the model. Each of the components is described in more detail in the Rating Components section below.

(C) Rating Components

SBA derives components from three types of data sources to calculate a loan’s PPR: SBA loan data, D&B Borrower data,⁴ and macroeconomic data. The first category includes detailed loan/borrower level information from SBA’s database. The second category is information on the small business borrower from D&B’s trade database. The third category includes state level unemployment data. Each of the components is defined in detail below. For those components that were also in the prior model, their definitions are generally the same.

(1) SBA Loan Data Components

Loan Status: The Loan Status component captures the payment status of loans as of the rating date. Loans are categorized as current, delinquent, past due, or deferred. If delinquent, this component indicates the delinquency “bucket” (e.g., 30 days past due, 60 days past due, etc.) at the time of rating. A greater number of days past due contributes to a higher purchase risk.

Loan Term: The Loan Term is the length of the loan repayment period at origination. Loan Term is measured in months and purchase risk increases as the repayment term increases for 7(a) Revolver loans. For 7(a) Fixed loans, the purchase risk associated with the loan term is arch-shaped: Loans at either end

of the spectrum (very short or very long term) have the lowest purchase risk. For 504 loans, the purchase risk is lower for longer term loans.

Months on Book (MOB): The MOB is the number of months between the rating date and the date of the first loan disbursement, up to a maximum of 120 months. For 7(a) loans, the purchase risk associated with MOB risk level is arch-shaped: Loans at either end of the spectrum (very low or very high MOB) have the lowest purchase risk. For 504 loans, a higher MOB is associated with a higher purchase risk.

NAICS Sector: The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments. For 7(a) Segment 1, revolver-type loans in current payment status, industries classified as information, transportation, or warehousing are associated with the highest purchase risk and those classified as education, finance, insurance, management, manufacturing, public administration, and utilities are associated with the lowest purchase risk. All other industry classifications are associated with a mid-range of purchase risk. For 504 Segment 1, current loans, industries classified as food services, administrative, educational, manufacturing, real estate, or retail are associated with the highest purchase risk and those classified as agriculture, forestry, fishing, construction, finance, insurance, information, or mining have the lowest purchase risk. All other industry classifications are associated with a mid-range of purchase risk.

New or Existing Business Indicator: This component indicates whether a borrower is a new or existing business. Start-ups and businesses in existence for 2 years or less are considered new businesses and those over 2 years old are considered existing businesses. An existing business is associated with a lower purchase risk.

Overall Interest Rate: The Overall Interest Rate is the interest rate of a loan at origination. A higher Overall Interest Rate is associated with a higher purchase risk.

Outstanding Loan Balance: The Outstanding Loan Balance is the outstanding gross loan balance at the time of the rating date. This component is only used for revolver-type accounts that are currently in active status. The purchase risk associated with Outstanding Loan Balance is arch-shaped: Loans at either end of the spectrum (very low or very high Outstanding Loan Balance) have the lowest purchase risk.

SBA Share of Outstanding Loan Balance: The SBA Share of Outstanding Loan Balance is the SBA guaranteed portion of the outstanding amount of the loan as of the rating date. Similar to the Outstanding Loan Balance, the purchase risk associated with SBA Share of Outstanding Loan Balance is arch-shaped: Loans at either end of the spectrum (very low or very high SBA Share of Outstanding Loan Balance) have the lowest purchase risk.

Sold on Secondary Market Indicator: This component indicates whether the SBA guaranteed portion of a loan was sold on the secondary market. This is a static field once a loan is sold on the secondary market. Loans sold on the secondary market have a higher purchase risk.

Spread Interest Rate: The Spread Interest Rate is the difference between the interest rate of the loan and the Prime interest rate in effect on the date of origination. A higher Spread Interest Rate is associated with a higher purchase risk.

12-Month Lender Purchase Rate: The 12-Month Lender Purchase Rate is a calculated field based on a lender’s purchase rate over the past 12 months. A higher value for this attribute is associated with a higher purchase risk.

12-Month Originating Lender Purchase Rate: The 12-Month Originating Lender Purchase Rate is a calculated field based on the originating lender’s purchase rate over the past 12 months. For loans that a lender has acquired from another SBA Lender, the originating lender’s 12-Month Lender Purchase Rate will apply. For loans that have not been acquired from another SBA Lender, this component is the same as the 12-Month Lender Purchase Rate described above. If the originating lender does not have a 12-Month Lender Purchase Rate (for example, the lender is no longer participating in SBA’s programs or is no longer in business), the 12-Month Overall Portfolio Purchase Rate will be used. The 12-Month Overall Portfolio Purchase Rate is the purchase rate of SBA’s entire 7(a) or 504 portfolio, based on the last 12 months. A higher value for this attribute is associated with a higher purchase risk.

(2) D&B Borrower Data Components

Commercial Credit Score: The Commercial Credit Score (CCS) is a proprietary calculation from D&B that predicts the likelihood of a business paying its bills in a severely delinquent manner (91 days or more past terms), obtaining legal relief from its creditors, or ceasing operations without paying all creditors in full over the next 12 months. D&B defines severe

⁴D&B business bureau data is combined with FICO consumer data.

delinquency as a business with at least 10 percent of its payments 91 days or more past due, based on the information in D&B's commercial database. A high CCS value indicates a lower risk of delinquency. The CCS is calculated using statistical models derived from D&B's extensive database of U.S. businesses including payment, public filing, demographic, and financial information when available. A higher CCS is associated with a lower purchase risk.

Number of Current Accounts: The Number of Current Accounts is the number of a borrower's trade accounts, as reported to D&B, that have been current over the past 24 months. Higher values of this attribute are associated with lower purchase risk.

Number of UCC Filings: Number of UCC Filings is the number of Uniform Commercial Code (UCC) filings recorded against the borrower's business in the past 10 years, including initial filings, continuations, amendments, and terminations. A UCC filing is a legal form filed by a creditor to give notice that it has an interest in the property of a debtor. A higher value for this attribute is associated with a higher purchase risk.

PAYDEX Previous 3 Months: PAYDEX is a unique, dollar weighted indicator of a business's payment performance based on the total number of payment experiences in D&B's database over the past 3 months. Payment experiences are gathered by D&B from a business's suppliers and vendors. Higher PAYDEX scores indicate better payment performance. A higher value for this attribute is associated with a lower purchase risk.

Percent of Accounts 30 Days or More Past Due: The Percent of Accounts 30 Days or More Past Due is calculated using data from the D&B detail trade database for the last 4 months. This percentage results from dividing the total number of accounts which have been 30 days or more delinquent in the past 4 months by the total number of active accounts associated with a borrower. A higher value for this attribute is associated with a higher purchase risk.

SBPS: The SBPS, the Small Business Risk Portfolio Solution commercially known as SBRPS, is a portfolio management credit score based upon a borrower's business credit report and principal's consumer credit report and is updated quarterly. SBPS is a commercial score provided by Dun & Bradstreet (D&B), under contract with SBA. SBPS was developed by D&B and FICO and is compatible with FICO's "Liquid Credit" origination score. This

component provides an indication of the relative creditworthiness of a given borrower with higher values indicating lower purchase risk. FICO recently updated SBPS to a new, more predictive version which will be used in this redeveloped Risk Rating version.

Total Employees: Total Employees is the number of people the borrower employs, as reported to D&B. A higher value for this attribute is associated with a lower purchase risk.

Viability Score: The Viability Score is a proprietary calculation from D&B that assesses the probability that the borrower will no longer be viable within the next 12 months compared to all the U.S. businesses within the D&B database. A business is no longer viable when it goes out of business, becomes dormant or inactive, or files for bankruptcy. The Viability Score is based on available financial data, trade payments, firmographics and other business activity. A higher Viability Score is associated with a higher purchase risk.

(3) Macroeconomic Data Component

Average State-level Unemployment Rate: The Average State-level Unemployment Rate is the ratio of unemployed to the civilian labor force in the borrower's State, expressed as a percent. The source is Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics Database. The borrower's state is identified through borrower's address fields in the SBA's database. The unemployment rate is extracted directly from BLS reporting, which is updated monthly. A higher unemployment rate in the borrower's state contributes to a higher purchase risk.

(D) Lender Risk Rating

The SBA Lender Risk Rating (LRR) is a measure of predicted performance over the next 12 months. As described above, SBA uses its Risk Rating model to calculate a Forecasted Purchase Rate (FPR). The FPR predicts the percent of an SBA Lender's SBA loan portfolio that will be purchased over the next 12 months. An SBA Lender's FPR can be used to project the dollar amount of an SBA Lender's purchases. SBA then uses the FPR to assign a composite rating of 1 to 5 to each SBA Lender. This composite rating is the LRR. SBA may make adjustments to the composite rating based on results of reviews, third party information on an SBA Lender's operations, portfolio trends, and other information that could impact an SBA Lender's risk profile. (See section E "Overriding Factors" for further detail.) In general, a rating of 1 indicates least

risk, and that the least degree of SBA oversight is likely needed, while a 5 rating indicates highest risk, and that the highest degree of SBA oversight is likely needed. Rating categories 2, 3, and 4 provide granularity for increasing levels of risk and the corresponding levels of necessary oversight.

(E) Overriding Factors

As with prior LRR models, the redeveloped Risk Rating System allows for consideration of additional factors. The occurrence of these factors may lead SBA to conclude that an individual SBA Lender's composite rating, as calculated by the Risk Rating model, is not fully reflective of its true risk. Therefore, the Risk Rating System provides for the consideration of overriding factors, which may only apply to a particular SBA Lender or group of SBA Lenders, and permit SBA to adjust an SBA Lender's calculated composite rating. The allowance of overriding factors in helping determine an SBA Lender's Risk Rating enables SBA to use key risk factors that are not necessarily applicable to all SBA Lenders but indicate a greater or lower level of risk from a particular SBA Lender than that which the calculated rating provides.

Overriding factors may result from SBA Lenders' risk-based reviews/examinations and evaluations. SBA routinely conducts reviews of SBA Lenders, performs safety and soundness examinations of SBA Small Business Lending Companies (SBLCs) and Non-Federally Regulated Lenders (NFRs), and uses certain evaluation measures for other SBA Lenders. Examples of other overriding factors that may be considered include, but are not limited to: Enforcement or other actions of regulators or other authorities, including, but not limited to, Cease & Desist orders by, or related agreements with, Federal Financial Institution Regulators (FFIRs); capital adequacy levels not in conformity with FFIRs; secondary market issues and concerns; receipt of a Going Concern opinion issued by an independent auditor; early loan default trends; purchase rate or projected purchase rate trends; abnormally high default, purchase or liquidation rates; denial of liability occurrences; lending concentrations; rapid growth of SBA lending; net yield rate (or losses) significantly worse than average; violation of SBA Loan Program Requirements; inadequate, incomplete, or untimely reporting to SBA; fraud/indictment of lender, officers, or key employees; an identified condition that affects capital, solvency or prudent commercial lending ability; inaccurate

submission of required fees or amounts due SBA or the federal government; and other risk-related or program integrity concerns. Rapid growth, in particular, is a significant factor that can mask poor portfolio performance in a calculated Risk Rating. Consequently, SBA includes a rapid growth flag in its PARRiS and SMART assessments and in this override list.

(F) Confidential Information

Each SBA Lender must continue to handle its Reports, Risk Ratings and related Confidential Information in accordance with the confidentiality requirements set forth in 13 CFR 120.1060, Confidentiality of Reports, Risk Ratings, and related Confidential Information. Under this regulation, Reports, Risk Ratings, and Confidential Information are privileged, confidential, and the property of SBA. Further, the regulation states that such information may not be relied upon for any purpose other than SBA's lender oversight and SBA's portfolio management purposes. In addition, the SBA Lender is prohibited from disclosing its Report, Risk Rating, and Confidential Information, in full or in part, in any manner, without SBA's prior written permission, and the SBA Lender must not make any representations concerning the information (including Report findings, conclusions, and recommendations), the Risk Rating, or the Confidential Information.

13 CFR 120.1060(a) defines "Report" to mean "the review or examination report and related documents." It also provides that Confidential Information "is defined in the SBA Lender information portal and by notice issued from time to time." The SBA Lender information portal currently defines "Confidential Information" to mean "all lender-related information contained in the Portal including "Lender Results", except for the "Past 12 Month Actual Purchase Rate" and the "Past 12 Month Actual Charge-Off Rate". SBA has expanded the information available to an SBA Lender in the Lender Portal. Therefore, SBA is updating the definition for "Confidential Information" to mean:

"Confidential Information includes all the SBA Lender-related information/data contained in the Lender Portal except the dollar amounts associated with SBA purchase of and charge off of SBA Lender's loans and information already publicly available related to the Lender's capital, non-performing assets, and regulatory actions (e.g., from a bank's public Call Report). Confidential Information also includes any information related to SBA's supervision of the SBA Lender (e.g., review or corrective

action correspondence) and any actions taken by SBA related to enforcement (e.g., informal enforcement actions as defined in SOP 50 53 or by regulation, notices of proposed enforcement action) unless made public by SBA (e.g., in a Cease and Desist Order)."

SBA included the last sentence because it has long treated supervisory and enforcement information as confidential information and this information is generally related to a review or exam and, therefore, covered by the confidentiality provisions in 13 CFR 120.1060 and/or FOIA exemption 8. SBA may disclose Reports, Risk Ratings, and Confidential Information in its discretion; however, such disclosures do not waive SBA Lender's obligation under 13 CFR 120.1060 to maintain the confidentiality of the information.

(G) Conclusion

In conclusion, industry best practices and changes in the SBA portfolio, programs, and available data necessitate that SBA's Risk Rating model be periodically redeveloped. This notice marks the third redevelopment of SBA's Risk Rating model. In addition to this redevelopment, SBA has and will continue to perform annual validation testing on the calculated composite Risk Ratings and will further refine the model as necessary to maintain or improve the predictiveness of its risk scoring.

Authority: 15 U.S.C. 633(b)(3); 15 U.S.C. 634(b)(6) and (7); 15 U.S.C. 657t; 15 U.S.C. 687(f); and 13 CFR 120.10, 120.1015, 120.1025, 120.1050, and 120.1060.

Tami Perriello,

Acting Administrator.

[FR Doc. 2021-03053 Filed 2-12-21; 8:45 am]

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SMALL BUSINESS ADMINISTRATION

[Disaster Declaration #16869 and #16870; Washington Disaster Number WA-00089]

Administrative Declaration of a Disaster for the State of Washington

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

SUMMARY: This is a notice of an Administrative declaration of a disaster for the State of Washington dated 02/09/2021.

Incident: Wildfires and Straight-line Winds.

Incident Period: 09/01/2020 through 09/19/2020.

DATES: Issued on 02/09/2021.

Physical Loan Application Deadline Date: 04/12/2021.

Economic Injury (EIDL) Loan Application Deadline Date: 11/09/2021.

ADDRESSES: Submit completed loan applications to: U.S. Small Business Administration, Processing and Disbursement Center, 14925 Kingsport Road, Fort Worth, TX 76155.

FOR FURTHER INFORMATION CONTACT: A. Escobar, Office of Disaster Assistance, U.S. Small Business Administration, 409 3rd Street SW, Suite 6050, Washington, DC 20416, (202) 205-6734.

SUPPLEMENTARY INFORMATION: Notice is hereby given that as a result of the Administrator's disaster declaration, applications for disaster loans may be filed at the address listed above or other locally announced locations.

The following areas have been determined to be adversely affected by the disaster:

Primary Counties: Whitman.

Contiguous Counties:

Washington: Adams, Asotin, Columbia, Franklin, Garfield, Lincoln, Spokane.

Idaho: Benewah, Latah, Nez Perce.

The Interest Rates are:

	Percent
<i>For Physical Damage:</i>	
Homeowners with Credit Available Elsewhere	2.375
Homeowners without Credit Available Elsewhere	1.188
Businesses with Credit Available Elsewhere	6.000
Businesses without Credit Available Elsewhere	3.000
Non-Profit Organizations with Credit Available Elsewhere ...	2.750
Non-Profit Organizations without Credit Available Elsewhere	2.750
<i>For Economic Injury:</i>	
Businesses & Small Agricultural Cooperatives without Credit Available Elsewhere	3.000
Non-Profit Organizations without Credit Available Elsewhere	2.750

The number assigned to this disaster for physical damage is 16869 5 and for economic injury is 16870 0.

The States which received an EIDL Declaration # are Washington, Idaho. (Catalog of Federal Domestic Assistance Number 59008)

Tami Perriello,

Acting Administrator.

[FR Doc. 2021-03009 Filed 2-12-21; 8:45 am]

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