SBA Procedural Notice

TO: All SBA Employees and Sureties and Principals participating in SBA's Surety Bond Guarantee Program

CONTROL NO.: 5000-870023

SUBJECT: Procedural Notice - Updates for Principal Eligibility Review Procedures and Program Portfolio Risk Management in SOP 50 45 4

EFFECTIVE: July 22, 2025

The purpose of this Notice is to inform SBA employees, as well as surety companies and any other program users (collectively referred to as "Surety"), of a change in procedures for: 1) SBA review of Principal eligibility via U.S. Treasury's Do Not Pay (DNP) portal; and 2) the use of portfolio performance risk scoring to manage SBA's Surety Bond Guarantee (SBG) program portfolio risk. This notice revises Standard Operating Procedures (SOP) 50 45 4.

SBA utilizes U.S. Treasury's DNP portal to review Principal eligibility concerns reported by federal agencies. The procedure for submitting queries to the portal is modernizing in the Capital Access Financial System (CAFS) electronic application system (eApps). The update increases SBA's capacity for fraud risk mitigation.

SBA is expanding its oversight and accountability procedures to include Surety portfolio performance risk scoring. The update provides the public with transparency on how SBA monitors and manages program performance risks.

The changes in this Notice update Standard Operating Procedures (SOP) 50 45 4. The updated procedures apply to the SBG program and will control over any conflicting provisions in SOP 50 45 4. All Surety application submissions in eApps on and after the effective date of this Notice will follow the DNP procedures set forth below. SBA will begin utilizing the risk scoring as written below on the effective date of this Notice. SBA will continue to review these processes and incorporate the revised procedures in the next SOP 50 45 update after determining whether additional changes are needed.

Summary of Procedural Changes

Principal Eligibility Review Procedural Update

SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete

Must be accompanied by SBA Form 58

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SBA's SBG program utilizes U.S. Treasury's DNP portal to manage review factors of Principal eligibility related to the ability to do business with the federal government and fraud-related indicators found within the portal. This update changes the procedure SBA implements for managing DNP portal review. The changes streamline processing, standardize documentation, and improve SBA's fraud risk oversight capacity in eApps.

Current review procedure:

1. Surety submits application via eApps for SBA approval.
2. SBA staff manually identify Principals on the application and manually access U.S. Treasury's DNP portal to query for all active Principals on file.
3. SBA staff remediates any DNP issues via application comments with the Surety.
4. Once successful remediation is certified by SBA, the application continues through the application process.

This procedure is implemented on the first application of a Principal in each fiscal year per SBA staff capacity to conduct the review.

Revised submission procedure:

1. Surety submits application via eApps for SBA approval.
2. eApps queries the U.S. Treasury's DNP portal for all active Principals on file.
3. SBA staff remediates any DNP issues via application comments with the Surety.
4. Once successful remediation is certified by SBA, the application continues through the application process.

This procedure is implemented on the first application of a Principal and on a 6-month interval thereafter should subsequent applications be submitted after the most recent DNP query.

IMPORTANT note: When clicking submit on an application subject to a DNP portal query, the application will take extra time to load while it waits for results from the system's query.

Surety Portfolio Performance Risk Scoring

SBA is updating the oversight and accountability procedure for Surety portfolio performance risk assessments. Current procedures do not clarify SBA's methodology for determining a Surety portfolio's performance risk or the parameters showing when SBA considers corrective actions.

When assessing the risk associated with a Surety's SBG program portfolio, SBA utilizes a risk scoring framework. The framework enables SBA's compliance with program statutes and regulations that obligate SBA and Sureties to prudently administer the SBG program. The framework also ensures fairness in SBA's assessment by standardizing the methodology used to weigh quantifiable factors related to performance risk.

Summary of Risk Scoring

SBA utilizes a 5-tier risk score based on five risk measures related to claims and loss in the SBG program. The scores are combined into a weighted overall risk score used to gauge the performance health of a Surety's portfolio. The top two risk tiers identify portfolio risk that

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potentially threatens program solvency or goes against the program's mission of supporting small businesses through prudent surety bonding. These tiers trigger SBA's consideration of corrective action.

Details of Procedural Changes

SOP 50 45 4 Updates:

SOP 50 45 4 Principal Eligibility Issues in U.S. Treasury's Do Not Pay Portal Update

Page 48, SOP 50 45 4 Chapter 5, "Contractor Eligibility Requirements" is appended at the end as follows:

9. Outstanding Do Not Pay Issues

Principals with outstanding issues reported by federal agencies through the U. S. Treasury's Do Not Pay (DNP) portal that have not been resolved in full or through a current payment agreement are ineligible for an SBA guarantee.

Upon first submission of an application in Prior Approval and Preferred Surety, SBA will query the DNP portal for outstanding issues related to the submitted TIN and SSN of all individual owners on file. SBA will also perform follow-up queries on a submission that is at least 6 months after the most recent DNP query on an applicant. Any results require SBA to review and coordinate remediation with the submitter.

a. DNP Review Process

(1) At submission, eApps queries the DNP portal for federally reported issues;

(2) When a DNP issue exists, the application changes to "Agent Outstanding (Pending Certification)";

(3) SBA conducts a review of the issue regarding the possibility of remediation;

(4) SBA notifies the submitter of the issue and its remediation needs (if any);

(5) The submitter must provide acceptable documentation of remediation;

(6) Upon acceptance, SBA clears DNP issue in CAFS;

(7) The application continues to process per normal processing.

b. Common Issues

(1) *Taxes*: Debt issues related to taxes require acceptable documentation of the federal payment agreement and payment within the last month showing proof of being current on payments.

(2) *Student loans*: Debt issues related to student loans require acceptable documentation of the federal payment agreement and payment documentation showing proof of being current on payments within the last month.

(3) *Deceased person*: Identity issues related to duplicate identity numbers require acceptable proof of valid EIN/SSN of subject in question. If the discrepancy is with an individual, acceptable proof of living status is required.

(4) *Child support*: Debt issues related to child support require acceptable documentation of the payment agreement in the state of the delinquency and payment within the last month showing proof of being current on payments.

(5) *Other federal debts*: Other debts related and/or managed by the federal government require acceptable documentation of the payment agreement and payment within the last month showing proof of being current on payments.

Other issues not listed above are reviewed and remediation determined by SBA based on the nature of the issue and the availability of official verification options. Upon review of documentation, acceptance is at the discretion of SBA.

SOP 50 45 4 Surety Portfolio Risk Scoring Update

Page 93, SOP 50 45 4 Chapter 9, "Surety Oversight and Accountability" is revised in its entirety as follows:

Chapter 9. Surety Oversight and Accountability

SBA performs ongoing monitoring of Surety Bond Guarantee (SBG) program performance for all participating Sureties to identify unacceptable risk profiles and, if appropriate, enforce SBG program requirements through corrective actions (this is separate from SBA's audit procedures). SBA is responsible for ensuring that program utilization aligns with its mission. As outlined in 13 CFR § 115.21, SBA reviews the adequacy and sufficiency of SBA-guaranteed surety bonds supported by participating Sureties. The program shares this information with Surety participants to increase transparency and to facilitate discussion and remediation of identified concerns.

1. Monitoring and Reporting Measurements

SBA continually monitors Sureties' respective performance with a look-back period of up to five (5) fiscal years (dependent on length of participation). In general, SBA will provide Sureties a copy of SBA's findings at intervals and thresholds determined by SBA.

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SBA considers several factors when evaluating portfolio risk of participating Sureties. These include (but are not limited to):

a. Portfolio performance relative to the overall program;

b. Regulatory compliance;

c. Standard operating procedure compliance;

d. Form submission compliance;

e. Risk and claims management; and

f. Other qualitative factors as deemed necessary

2. Surety Portfolio Risk Scoring Framework

requires prudent administration of the Surety Bond Guarantee program by SBA. 13 CFR 115.18 helps fulfill that obligation implementing governance and oversight practices of Surety underwriting, minimization of loss, management of claims, and recovery. It also requires that participating Sureties maintain acceptable portfolio performance relative to the overall program portfolio. Together, the statute and regulations establish that participation in the program by Sureties has an expectation of acceptable performance.

a. Surety Portfolio Risk Scoring

SBA utilizes a risk scoring framework to monitor, assess, and act on the portfolio performance of Sureties participating in the program. This framework enables SBA to objectively manage quantitative factors of Surety performance in the program.

b. Measure and Weighted Risk Scoring

Below are the measures used by SBA to score a Surety's portfolio risk. SBA uses these measures to calculate a Surety's overall weighted risk score. The weighted score is then rounded to the nearest whole number. Both the actual and rounded scores are considered during review. Reviewing this measure allows SBA to understand the insolvency risk of the Surety's portfolio and underwriting practices. The Surety's measure result is compared to the SBA program's portfolio measure result for scoring purposes.

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Measure	Description	Calculation	Weight
5-yr loss rate	The net losses on SBGs originated over the previous 5 years.	Cumulative net loss reimbursements paid on SBGs originated in previous 5 fiscal years (FYs) DIVIDED BY cumulative fees billed on SBGs originated in previous 5 FYs.	25%
5-yr small business claim rate	The business claim rate on SBGs originated over the previous 5 years.	Number small businesses with a claim on an SBG originated in previous 5 FYs DIVIDED BY number small businesses with an SBG originated in previous 5 FYs.	25%
5-yr claim rate	The SBG claim rates on SBGs originated over the previous 5 years.	Number SBGs originated in previous 5 FYs with a claim DIVIDED BY number SBGs originated in previous 5 FYs.	20%
12-mo in-year claim rate	The risk trends based on claims and SBG guarantees over the previous 12 months.	Number SBGs with a 1st claim in previous 12 months DIVIDED BY number SBGs approved over last 12 months.	15%
5-yr in-year claim rate	The risk trends based on claims and SBG guarantees over the previous 5 years.	Number SBGs with a 1st claim in previous 5 years DIVIDED BY number SBGs approved over last 5 years.	15%
Total			100%

(1) 5-year loss rate measure

The 5-year loss rate reviews SBA net loss reimbursements paid against SBA fees billed for guarantees originated during the last 5 full fiscal years. If the Surety being measured has not participated in the SBG program for 5 years, SBA will only use the measure results for years during the Surety's activity.

(2) 5-year claim rate measure

The 5-year claim rate reviews the rate of bond guarantees with claim loss to total final bond guarantees that originated during the last 5 full fiscal years. If the Surety being measured has not participated in the SBG program for 5 years, SBA will only use the measure results for years during the Surety's activity.

(3) 5-year small business claim rate measure

The 5-year small business claim rate reviews the rate of small businesses that experience a claim loss to total small businesses on bond guarantees that originated during the last 5 full fiscal years.

If the Surety being measured has not participated in the SBG program for 5 years, SBA will only use the measure results for years during the Surety's activity.

(4) 12-month in-year claim rate measure

The 12-month claim rate reviews the rate of bond guarantees with claim loss to total final bond guarantees that occurred during the last 12 months. This measure includes claims on approved bond guarantees originating earlier than the review period. Reviewing this measure allows SBA to understand the liability coverage risk of the Surety's portfolio.

(5) 5-year in-year claim rate measure

The 5-year claim rate reviews the rate of bond guarantees with claim loss to total final bond guarantees that occurred during the last 5 full fiscal years. This measure includes claims on approved bond guarantees originating earlier than the review period. If the Surety being measured has not participated in the SBG program for 5 years, SBA will only use the measure results for years during the Surety's activity.

c. Risk Scores and Classification

SBA's measure scoring utilizes a combination of thresholds relative to the program portfolio, which allows SBA to conduct a peer review of participating Sureties. The review is conducted by comparing a Surety's performance against a comparable segment of Sureties using the SBG program; primarily PSB and Prior Approval segments, although SBA may take additional segmentation into consideration. This approach integrates performance impacts from external factors to the overall industry review. Scores will be determined only based on program performance in years of activity by a Surety.

The following table is the scoring framework for all measures.

Score	**Rate**	**Range**
1	Excellent	0 to 49.9 percent of the program measure result
2	Lower	50 percent to 74.9 percent of the program measure result
3	Moderate	75 percent to 124.9 percent of the program measure result
4	Higher	125 percent to 199.9 percent of the program's measure result
5	Unacceptable	200 percent or more of the program's measure

(1) Performance of Low Volume Sureties

A 'low volume Surety' is defined as a Surety with less than 100 approved final bond guarantees during the most recently completed fiscal year. These Surety portfolios are considered no less than higher risk (4) until activity is over 100 approved final bond guarantees in the most recently completed fiscal year.

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Low volume Sureties are managed on a claim-instance basis. Should a low volume Surety experience a claim, SBA will have a consultation with the Surety and possible corrective actions will be taken. This is due to the lack of statistical reliability for low-activity portfolios and that any claim activity from these portfolios is a concern.

d. Performance-Based Corrective Actions

SBA considers performance-based corrective actions in the following scenarios:

(1) When any one measure score rounds to 4 (higher risk) or greater; or

(2) When the weighted total score rounds to 4 (higher risk) or greater.

SBA utilizes the actual total score (not rounded), individual measure scores, and qualitive factors when evaluating the necessity of corrective action. Depending on the nature of findings, SBA may require a rebuttal statement from the Surety on findings before making an action decision. In these scenarios, rebuttal statements will also be factored into SBA's corrective action determination.

SBA corrective actions may include, but are not limited to:

(1) Monitoring;

(2) Training;

(3) Reduced participation in the program;

(4) Reduced guaranty percentage in the program;

(5) Renegotiated charge to the Surety for bonds executed thereafter;

(6) Suspension; and

(7) Termination of participation.

When performing a corrective action, SBA provides the Surety with a report on findings, determinations, and the corrective action(s) determined necessary.

An SBA Information Notice is published to the public on an annual basis to establish the updated SBA portfolio position and key statistical performance measure thresholds that trigger consideration of corrective actions by SBA.

e. Surety Portfolio Risk Framework Evaluation

SBA will periodically review the current risk scoring framework for efficacy and areas of improvement. SBA will issue guidance to the public should any changes occur.

3. SBA Process to Require Corrective Action

The decision to require corrective actions be taken by a Surety is made by the Director, Office of Surety Guarantees (D/OSG). These corrective actions may be based on Surety issues from performance, compliance, or both. While a corrective action is pending, SBA may suspend

program participation until the Surety satisfactorily meets all conditions set by SBA for resumption of support.

If notified of a required corrective action by SBA, a Surety must respond in writing according to the response timeframe indicated by SBA. The response must include acknowledgement of the required corrective action and a statement of intent to comply.

If prompted for a corrective action plan by SBA, a Surety must respond in writing within 45 business days of email receipt of such notice unless SBA notifies the Surety of a different timeframe. The response must include a corrective action plan with details on actions the Surety will take to address each finding and corrective action required.

A Surety must implement all corrective actions within 90 calendar days of the date of email receipt of the notice unless SBA provides written notice of another timeframe. After receiving Participant's response, SBA generally will assess the plan and notify the Surety of whether its plan/actions are satisfactory, not satisfactory, or SBA requires additional information.

SBA may conduct a targeted review to confirm the Surety has implemented its corrective action(s). The corrective action process is a key tool for bringing Sureties into compliance and limiting agency and Surety risk. Decisions to suspend, terminate, deny participation in, or deny reinstatement in the Surety Bond Guarantee program are made by the program's Director. A Surety may file a petition for review of suspensions and terminations with the SBA Office of Hearings and Appeals (OHA) under 13 CFR 134.

Questions:

Questions concerning this Notice may be directed to Kevin Valdes, Management Analyst, at Kevin.Valdes@sba.gov.

Jermaine Perry

Director, Office of Surety Guarantees.

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