

## **SBA Lending in a Changing Risk Environment: What Compliance Officers Should Be Watching Now**

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Small Business Administration (SBA) lending remains one of the most meaningful ways banks can support local communities while building a strong portfolio. At the same time, the risk environment surrounding SBA lending has evolved. Banks are navigating faster origination expectations, more sophisticated fraud schemes, complex third-party relationships, and heightened documentation and governance standards.

For compliance officers, the goal is not to slow down SBA lending. Instead, the objective is to support efficient lending by strengthening controls that protect the bank, the borrower, and the SBA guaranty. By establishing clear oversight and well-defined processes, compliance helps the business lend with confidence. The following are key areas warranting attention at this time.

### **Fraud controls should be part of daily operations**

Fraud attempts tied to small business lending have become more persistent and harder to detect. While some of the most visible cases surfaced during emergency-era lending programs, many of the same patterns continue today. Common indicators include inconsistent borrower information, questionable or altered supporting documentation, and business activity that does not align with the stated purpose or operational profile.

Compliance can support SBA lending teams by reinforcing clearly defined fraud-validation steps and escalation protocols. Strong intake controls and consistent handling of red flags reduce reliance on individual judgment and promote timely, well-supported decision-making when activity does not align or raises concern.

### **Documentation should support the decision**

SBA lending has always required strong documentation, but expectations have shifted toward ensuring the loan file clearly supports each decision made. Many banks can explain underwriting decisions in conversation, but the loan file itself may not always reflect the same rationale in a way that a second-line reviewer, auditor, or examiner can easily validate.

A practical approach is defining what “complete documentation” means and reinforcing those expectations through checklists and procedure standards. At a minimum, the file should support borrower eligibility, the credit decision, and required approvals. Strong file quality is more than a best practice; it also reduces servicing challenges and helps protect the SBA guaranty.

### **Third-party oversight matters more than ever**

Banks increasingly rely on third parties such as referral sources, loan agents, technology platforms, and document support services. These relationships can improve speed and capacity, but they also introduce risk when responsibilities are unclear or oversight is informal.

Compliance should help ensure the bank has clarity around who performs which activities across the SBA lifecycle, from borrower intake through closing and servicing. Monitoring should confirm that third parties operate within the bank's expectations, issues are escalated in a timely manner, and the bank retains access to critical records. If a loan file cannot be retrieved quickly without third-party involvement, the relationship may be creating more risk than the business realizes.

### **Change management must be consistent**

SBA programs are governed by procedural guidance, operational rules, and internal bank requirements. When updates occur, many institutions implement changes operationally but do not consistently document how the change was assessed, approved, communicated, and validated.

Compliance can strengthen SBA programs by introducing lightweight change-management practices that are consistent and repeatable. A sound approach includes defining the change and its impact, identifying affected procedures and training, confirming approvals, documenting implementation timing, and validating execution. Banks may reference SBA procedural guidance, such as SBA SOP 50 10 <https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs>

### **Exception tracking helps control risk**

Although SBA lending differs from consumer lending, regulators still expect disciplined and consistent processes. Risk increases when credit decisions rely heavily on discretion without clear documentation standards and structured controls around exceptions.

Compliance officers should pay close attention to how exceptions are defined, approved, and tracked. A high volume of exceptions, unclear rationale, or inconsistent approvals can create both compliance exposure and operational instability. Strong exception governance is one of the most effective ways to reduce avoidable risk while supporting responsible growth.

## **Servicing cannot be an afterthought**

Many institutions place their strongest controls in origination, but issues often surface during post-close servicing. Missing documentation, incomplete follow-up, or weak monitoring can turn a well-underwritten SBA loan into a higher-risk asset over time.

Compliance can support servicing teams by confirming they have the procedures and tools needed to maintain file integrity, track key borrower requirements, and escalate issues that could affect performance or documentation quality. Strong servicing controls reinforce the bank's ability to support its decisions long after closing.

## **Build exam readiness into the process**

A strong SBA program should not require a scramble when an examination begins. Exam readiness is built through repeatable file standards, clear governance, and routine self-review.

Compliance can support this effort by implementing a risk-based review cadence that includes periodic file sampling or targeted quality-control testing. The objective is to identify and correct issues early, before they become systemic. This approach also helps the business view compliance as a partner in long-term success rather than a final checkpoint.

## **Final thoughts**

SBA lending remains a key growth strategy for many banks. The strongest SBA programs are not the most complex. They are built on clear expectations, strong file integrity, disciplined execution, and proactive readiness.

For compliance officers, focusing on fraud resilience, documentation quality, third-party oversight, structured change management, exception discipline, and servicing consistency protects the institution while enabling SBA lending to scale responsibly.