

COLEMAN REPORT

The SBA Lender's Industry Information Source

P.O. Box 546, La Cañada Flintridge, California 91012

Tel (818) 790-4591

Fax (818) 790-7859

twitter: BobColeman

e-mail: bob@colemanpublishing.com

www.colemanpublishing.com

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Bob Coleman, Editor

Vanessa Piccioni is SBA's Henry Ford

Herndon Manager's Clean Assembly Line Product Flow Results in 26-Day Turnaround for 7(a) Guaranty Purchases

Reporting from Herndon, VA – They were waiting for me. And they were ready. They should have been. After five years of trying to wrangle a visit into Herndon's operations, SBA finally said yes and opened up its doors to the press.

In This Issue

A special two part issue about SBA's National Guaranty Purchase Center, 2-8

And what I saw was shocking.

Shackles had been removed from employees. They appeared to move as freely as they pleased. Not one of them ran up to me sobbing and pleading for his or her release. I didn't even hear one blood-curdling scream.

Remember the picture of Herndon when it first opened, of the desk sagging under the weight of four-foot stacks of files?

Those days are long gone. The office was immaculate.

Today, not one file lies on the floor.

During the tour, I was peppered with management terms such as “time in motion studies,” “six sigma,” “pull systems,” “brand promises” and “expected outcomes.”

Terminology reflects Herndon's mission. They process files from one department to the next. That's their work-in-process, their inventory. It's an assembly line, with each department adding value to their work-in-process inventory.

The finished product results in a check being cut to the lender and the file mercifully consigned to its final resting place.

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Herndon's assembly line is clean.

As inventory moves from one department to the next it isn't stored on a file rack – it's stored in a grocery cart. Well, it looks like a file rack, but Herndon calls it a grocery cart to emphasize the fact that this is a perishable product that needs to be moved as quickly as possible.

Their product, their inventory, needs to stay fresh to exceed their customer, i.e., lenders', expectations. Aged inventory decreases in value each day. Lender expectations are unfulfilled and turnaround times increase.

“Our average turnaround time on a guaranty purchase package is 26 days,” Herndon's manager, Vanessa Piccioni, proudly tells me. “That's well within our 45 day brand promise.”

Brand promise.

SBA promises lenders that if you prepare the file the way they want it, you'll get your money within 45 days.

“It's gotten a lot better. Today, 65% to 75% of all packages are complete. It was 3% a couple of years ago.”

Customer Service

All manufacturing plants have a system of separating rejected parts from the line. Herndon is no different.

If the package doesn't contain the information in Herndon's ten-tab system – its manufacturing specs – it will be bounced off the line and routed to Customer Service – Herndon's concept of purgatory.

It will sit there until its penance is complete – either the lender supplies the missing information or Herndon changes its mind. If the clock runs out, you get the file back.

If one of your files is routed to Customer Service you will be contacted by a brand manager in your local district office. They will work with you to explain what you need to do to solve the problem.

This is a major change from the past. Originally, Herndon was to be a self-contained, centralized operation.

But lenders who had grown to rely on local SBA district relationships to solve problems chafed at the new system – and the faceless interactions.

Today, you have a couple of options to work with the center.

The district level, Herndon's customer service, or even get on a plane and tour the center – an open invitation by SBA to all lenders.

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Bob Coleman was invited to Herndon and was then given a tour by Vanessa Piccioni and Mike Stamler. Vanessa Piccioni is the Director of SBA's National Guaranty Purchase Center since January 2009 and has managed the guaranty purchase process since June 2007. Mike Stamler is based out of SBA Headquarters' Press Office.

Coleman Report: What would you like to tell lenders about the things you do to make their lives easier?

Vanessa Piccioni: First and foremost, we are their partner and we value their partnership.

Our job is to uphold our end of the deal – to purchase the guaranty whenever possible. It's important for lenders to embrace the idea that we are honoring 95% of the guaranties.

Obviously there will be situations where that's not possible.

There's been an awful lot of talk in the community about denial rates and that we want to deny everything. It's critically important for them to know the facts.

Coleman Report: Were there any denials last year, or were they all withdrawn by the lender?

Vanessa Piccioni: Once the lender has looked at all the facts, we always give the lender the choice to withdraw a loan. They can withdraw and resubmit later when they have a better package.

They can terminate our guaranty. If they have looked at the facts and we have looked at the facts, and we're in agreement about the problem, they can choose to terminate our guaranty.

Or they can contest the denial if they don't agree with our recommendation.

Coleman Report: Let's go through that process. Let's say that you're at loggerheads about whether the issue is a denial or repair. Take me through the steps of that process.

Vanessa Piccioni: Okay. It goes through the normal process of the financial review. Now if it's an eligibility issue it is what it is. The loan was not eligible to begin with.

Coleman Report: Let me rephrase it another way.

Obviously, without naming names can you talk about an instance where there was a major disagreement between Herndon and the lender, and how that was resolved? Maybe that's a better way to ask the

question.

Vanessa Piccioni: A major disagreement and how it was resolved. Here's the process: legal review, financial review, legal review, approving official.

Today, one of the things that's important for lenders to know is that we have instituted a new process.

Before that loan goes to headquarters it gets one last look by one of three of our senior loan officers in our Quality Assurance Division. They do a full analysis. They contact the lender one last time in writing with everything that they see. . .

We have resolved many of those cases internally. . .

Vanessa Piccioni
U.S. Small Business Administration
Director
National Guaranty Purchase Center

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If we have our loan officer, our legal department and our approver all in agreement that there is a denial, what happens if the lender does not agree with us?

In the past, the file would have been shipped to headquarters and the portfolio management staff would have taken a last look at it.

We can only recommend a denial; we can't actually deny the loan. The final authority is with headquarters.

After their analysis is done, and after many conversations with the lender, they will make a decision.

Today, one of the things that's important for lenders to know is that we have instituted a new process.

Before that loan goes to headquarters it gets one last look by one of three of our senior loan officers in our Quality Assurance Division. They do a full analysis. They contact the lender one last time in writing with everything that they see.

We have honest conversations with the lender about what it is and whether it needs to go to headquarters.

We have resolved many of those cases internally, but sometimes it feels like the lenders don't understand the process.

Perhaps we're dealing with the liquidation person in the backroom of the shop who doesn't fully understand what we are asking for or what would resolve the issue.

The good news is 20% to 30% of what is recommended to go to headquarters is resolved here as a result of this new process.

That's a win-win for the lender. We certainly don't want to deny them if we don't have to – it isn't a situation where our loan officer and our approving official and our attorney did anything wrong.

95% of the time it's a situation where the lender just hasn't given us exactly what we need.

Coleman Report: So, the ultimate conflict resolution is in headquarters. Has the agency been involved in any litigation of denials?

Vanessa Piccioni: I haven't heard of anything recently.

Coleman Report: I may have cut you off. You said there was a perception in the industry that you were in the denial business. Did you finish that thought? Did you want to expand on that?

Vanessa Piccioni: At the conferences it feels like we get some feedback from the lending community questioning why they should do SBA lending anymore if everything gets denied.

It's unfortunate, because that just isn't the case. One of our primary goals is to try to reset that perception.

Coleman Report: You mentioned that 95% of purchases are resolved satisfactorily. Of that 5%, does that include repairs, denials and withdrawals?

Vanessa Piccioni: Yes. The 5% includes instances when the lender has voluntarily terminated the guaranty. So, that is even more impressive.

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Coleman Report: Any idea what that dollar amount is?

Vanessa Piccioni: The funny thing is I can't think of the dollar figure, but it is actually 5% of the number of loans and 5% of the dollar amount, which is a huge coincidence. It was kind of funny when the numbers all came out to 5%.

Coleman Report: You don't have to answer this, but I read that there is a lot of pressure put on the central office, as well as you, from the OIG about guaranty denials.

How much does that impact what you do on a day-to-day basis? If that's an unfair question, you don't have to answer.

Vanessa Piccioni: Well, I respect our relationship with the Inspector General a lot.

I appreciate that relationship and I appreciate their feedback. We keep them in mind with everything we do.

Coleman Report: I know lenders talk to you about this.

Here's their problem. They're managing a department, and all of a sudden they have to go to their boss or their Board and say, "Hey. We now have an extra \$1.5 million charge-off due to an SBA guaranty denial. That causes all sorts of grief.

Especially with the community banks. Just look at the players who've left the business. Going back many years starting with Heller and then

GE. Bank of America and Capital One have dramatically reduced their SBA lending. They just threw up their hands and said, "We're not going to deal with this."

That's not your problem, but I think that's a perception in the industry that the guaranty is not valid.

I've had conversations with the OIG and I understand the job that they are doing.

I understand the pressures the OIG has on you and on headquarters.

But the problem from my standpoint is what is going to happen when the community banks get

more involved in SBA lending.

Look at the top 50 7(a) producers and you see that community banks are picking up the slack.

The question is, "Do they have the expertise to dot every 'i' and cross every 't'?"

For example, do they clearly understand what the 15-day rule is on that site visit?

Vanessa Piccioni: The lenders are going to have problems only if the lack of the site visit resulted in harm. There are two things that can help them.

One of the things that we try to get our people preaching and teaching – is to tell the lender to build the loan file as if they would have to send it in to us.

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If you do that you will have everything you need at the time of purchase if the loan goes into default.

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If you do that you will have everything you need at the time of purchase if the loan goes into default.

And we have many lenders who have opted to do this, but not all.

If you've got those tabs you know what you are going to need at purchase. If we can get the word out that this is the true way to make sure that you got everything right – you've done everything you need to do.

Mike Stamler: Correct me if I'm wrong. All that I've heard from Vanessa today is that it's not a question of dotting every “i” and crossing every “t.” It's ...

Vanessa Piccioni: Oh! You just helped me remember my second point. And that is you're right, it's not about dotting every “i” and crossing every “t.”

It's a materiality of harm issue. That's one thing we are committed to in the center.

We're about, “Okay we see that you didn't do the site visit on time. But was any collateral lost? Was any collateral damaged? Did anything happen as a result of the lack of that site visit?”

If the answer is no, here's what's going to happen. We write up that recommendation and we're going to note that the site visit wasn't done in a timely manner. Right after that we're going to say that it doesn't matter and we're moving on.

It's the same thing with lien positions. For example, you were supposed to be in second position, but you ended up in third position. If the value of the property is such that you wouldn't have gotten any money in either position then, it's no harm, no foul.

Then we're going to note in our write-up that the bank messed up – they should have been in second position. But the reality is that even if they were in second position, SBA wouldn't have gotten anything anyway. And we move on.

Mike Stamler: This is what Vanessa's been talking about today. She's looking for a way to approve the purchase, not for a way to not approve it.

Coleman Report: Right. And I guess what I'm saying about the pressures that you have with the OIG, they don't share...

Vanessa Piccioni: They're okay with that. Truthfully, that's the philosophy that we are drilling into our loan officers.

You have to tell the story in your write-up. If you check the box that the site visit wasn't done in a timely fashion but you don't say that there was no harm right after that, then the IG's going to ding us.

But as long as we state the facts in our write-up, when the IG reviews it, they're going to understand our approach.

At the end of the day they're looking for improper payments. They're looking to see if we gave away money we shouldn't have given away.

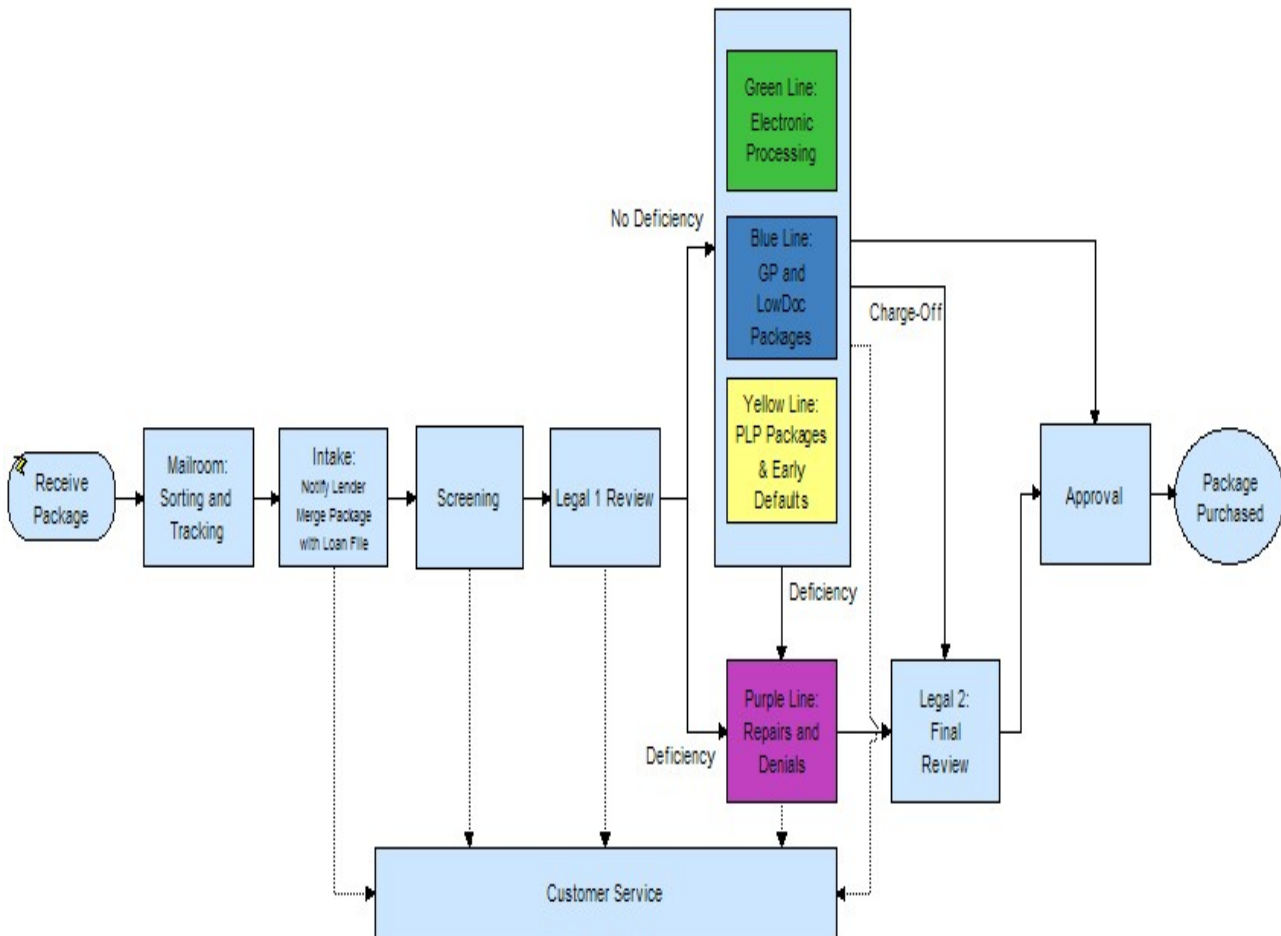
If we can illustrate in our write-ups that there was no money lost as a result of this, then there is no improper payment and we all move on.

So, the IG is fully aware of our materiality and harm approach, and they completely understand the way that we do things.

Now that doesn't mean that they wouldn't potentially come back and say that lenders aren't doing site visits in a timely fashion. But they're also going to say that there's no harm.

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NEW GUARANTY PURCHASE FLOW CHART



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Vanessa Piccioni: But it does frustrate us. The SOPs are there, the rules are there. But at the same time...

Coleman Report: Yeah, and that's difficult from a lender's senior management standpoint. Come on, this isn't rocket science. The SOP tells you what to do. The authorization tells you what to do. This is not difficult stuff.

Vanessa Piccioni: Train your processors on the 10 tabs in terms of what the banks can do. Train from the origination through closing. Train them on those tabs so that they fully understand what SBA's looking for.

Coleman Report: If a lender is totally frustrated with the process, what should they do? Or perhaps someone else in the bank is getting involved with a purchase request for the first time after it has been at Herndon for a while. What should they do?

Vanessa Piccioni: A couple of different things. They can email us at loanresolution@sba.gov. We monitor that email box all day long.

If they want to know about the status of a loan, email us at purchasestatus@sba.gov. We also monitor that all the time. (Remember, that's Eastern time.)

Or they can call Customer Service at (703) 487-9283 or (877) 488-4364.

They can also contact their local SBA district office.

And I have an open-door policy.

They can contact me and come here anytime. We love to show everyone who we are and what we do.

Just give us a little notice! (laughs)

Coleman Report: Great. Excellent. Anything else?

Vanessa Piccioni: I can't think of anything else.

Coleman Report: Was it that painful?

Vanessa Piccioni: No, not at all. I'm so glad you came.

Coleman Report: Thank you very much for your time.

Herndon Contact Information

Customer Service
(703) 487-9283
(877) 488-4364.

General Questions and Suggestions[
loanresolution@sba.gov

Purchase Status
purchasestatus@sba.gov

Vanessa Piccioni
(703) 487-9283

