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Teaching Loan Brokers New Tricks

Training, Respect, Follow up as Important as Fees

Loan brokers are still business development officer's best friend.

Just ask **Neil S. Sokoler**, now a senior vice president and business development officer in the SBA division of **Comerica Bank**.

In This Issue

Another Round of SBA Employee Buyouts, 5-8

For **Sokoler**, cultivating relationships with brokers like **Martin Morrow** have been crucial to his business.

Those relationships are so crucial that **Sokoler** gladly pays brokers like **Morrow** referral fees.

In today's lending environment **Sokoler** says one percent is typical in his line of work.

It's a small price to pay for a well-structured deal, **Sokoler** said. Which is ironic, given that up until 15 years ago **Morrow** avoided SBA deals as if they were the plague.

"I'd walk away from it," said **Morrow**, who handles commercial property mortgages for **Fallbrook Mortgage Corp.** in West Hills, Calif. "We didn't know how to do it – it was too complicated, we didn't know anything about it."

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Enter **Sokoler**. From his Sherman Oaks, Calif. office, **Sokoler** has cultivated relationships with loan brokers like **Morrow** to increase both his and their SBA-lending business.

Training the Loan Broker

“Your hope is that the brokers will try to steer you to borrowers who are eligible for your program,” **Sokoler** said. “It’s my job to work with them to cull off the ones that are not eligible for one reason or another and try to take the ones that are eligible to the next level – which is getting their paperwork and putting it in a format the bank can understand it, analyze it and issue a commitment letter.”

Beyond the fees, **Sokoler** pays a lot of attention to brokers, making sure they understand how the program works.

“In order for them to find borrowers who are eligible for the program you have to educate them about the program, what you can do and not do — and what determines eligibility,” he said.

“You have to give them enough information to allow them to help you gather potentially eligible prospects.”

As a result, **Morrow** said, it’s not uncommon to see **Sokoler** talking with his potential borrowers at the job site. In recent months the two have worked on deals for a restaurant and an auto body shop, continuing a business relationship that is more

than ten years old.

“More than once he has come down with me, to the location, and talked with the borrowers. That’s very impressive, to get the banker to come down and talk to them,” **Morrow** said. “I must do between \$10 million and \$15 million a year in loans, maybe more, and I’ve never had a banker come down and look at the property like that. And I’ve been doing this for 25 years.”

Sokoler attributes his success to that attention to detail. He says he and BDOs like him can consistently generate in excess of \$10 million in eligible 7(a) and 504 loans.

Beginning at **Government Funding Corp.** in 1989, **Sokoler** noticed traits that separated successful SBA lenders from unsuccessful SBA lenders. Among them:

- A good, back office staff.
- Good relations with SBA officials and the local and national level.
- Operations that had BDOs who knew how to bring in eligible SBA loans.

Starting with the Back Office

Sokoler emphasized that a big part of his success stems from a well-trained, and efficient back office.

“You need people who understand how the SBA operates and understand what the

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program is capable of and what meets the criteria of the program. You also show that to your underwriters, and then you get people who understand the paperwork and forms requirements of the SBA because you need to have good files,” he said.

“You also have to have people in the back office staff that understand how to do the servicing of the loan when the payments come in every month. You also have to have servicing people who can answer the questions of the bor-

rowers, because borrowers always have servicing related questions after their loans have funded,” **Sokoler** added. “You need people with good knowledge of the program.”

He has also built solid relationships with SBA officials “one person at a time.” He makes a point of knowing and cooperating with people in his local SBA office and says he doesn’t want to be “submitting loans that are not eligible.”

“You want your bank to be an asset to the community, which makes your bank look good but also the SBA, because the SBA’s mandate is to help small businesses in the community,” he said.

Making himself a quick study

Government Funding was a non-bank SBA lender that was a national leader in 7 (a) volume before it was sold to **Cen Fed** in 1996. (**Cen Fed** would later merge with **Imperial Bank**, which would later be acquired by **Comerica** in 2001).

It was in those early years, **Sokoler** said, that he learned the importance of SBA lending.

“I’m in a situation where everyone wins, and how of-

ten do you see that?”

“The borrower wins by getting a loan that helps them for their future. The bank wins by getting a good loan on its books,” **Sokoler** said. The government wins by helping the economy which I keep reading is small business. It’s win-win-win. How often in life do you find yourself in a position like that?”

It was also during those years that he made himself a “quick study” of **Government Funding’s** most productive BDOs. The traits he picked up then are, in large part, the same traits a young BDO just starting out would pick up if he or she made himself or herself a quick study of **Sokoler**.

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*Neil Sokolor
Sr. Vice President
Comerica Bank*

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“Understanding the program takes some time,” he said. “You’re not going to be able to know everything your first day out. It takes some study of what’s eligible and what’s not. It takes patience to work with mortgage brokers and borrowers and show them the respect they deserve.”

While some BDOs might be turned off by the time that goes into developing a broker’s knowledge of the program, **Sokoler** sees the time spent as an investment.

“When I say patience, sometimes you have mortgage brokers who have never done these kinds of loans before and they’re mostly accustomed to residential lending. And you need to be willing to spend the time with them to teach them about the program,” **Sokoler** said. “They can be very helpful to the end user, which is the client, and your bank, but you have to be able to give them the attention that they want.”

Over a period of years, that results in relationships with brokers who can do much of the leg work for the BDO.

“He’s very, very proficient at it. He’s given me the guideline and the questions to ask to separate the deals from the non-deals,” said **Morrow**.

“There are a lot of non-deals out there and a few good deals out there, and over the year’s I’ve learned to separate them. He’s trained me well.”

“I can smell (potential SBA borrowers) now,” **Morrow** laughed.

Learning never ends

Sokoler has spent most of his career as a 7(a) lender, but with SBA’s current drive to shift emphasis to 504 lending, he now finds himself in a position where the back office staff and brokers he has spent years training have to be retrained.

“The challenge I face is that I’m predominantly a 7(a) lender, and I’ve utilized that programs to help hundreds of borrowers, creating thousands of jobs,” **Sokoler** said.

“The 7(a) program has given a lot of small borrowers the opportunity to not only reach their dreams but has also created so many new jobs and all levels of income,” **Sokoler** said.

“What I’m now facing is that a lot of business in the 7(a) program – particularly the purchase of real estate – the SBA has been trying to move over to 504 program. It’s a different program with different parameters.”

“As a business development person I’m going to have to be dealing with the nuances and particular requirements of the 504 program as well as the 7(a) program,” he said.

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Another Round of SBA Employee Buyouts Targeted at District Finance Division Personnel

Flying underneath the radar screen is SBA's current round of employee buyouts.

Scheduled for April 14th, the agency wants to eliminate 300 high level, GS11-GS15, district finance division positions – those involved in the approval of SBA 7(a) loans submitted GP and CLP.

SBA would then replace about 100 of these employees with lower level and entry level, usually recent college graduates, GS7 to GS9, employees.

The last time SBA offered a mass buyout of employees was in September 2003, when the offer was extended to liquidation specialist in anticipation of centralizing liquidation activities in Herndon, Virginia.

That situation differed since many employees were given three choices – reassignment to Virginia, take the buyout or risk being terminated.

Logically, this buyout would signal the precursor for centralization of the approval process for 7(a) GP and CLP loans, but to date SBA has yet to announce the next phase of its centralization plans.

Senator Kerry

The Democratic staff of the Senate Small Business and Entrepreneurship committee is one group that has been in forefront to attempt to discern SBA's intentions.

Unfortunately, committee staffers believe SBA has not been very responsive to their requests for information.

On March 25 Senator **Kerry** (D-MA), the committee's ranking member,

sought additional information regarding SBA's March 14th announcement of its early buyout program for certain individuals.

The key unanswered question is exactly what are SBA's plans after the buyout of 300, almost seven percent of its workforce, senior district employees.

Without an announcement of centralized 7(a) GP and CLP loan processing exactly how will these loans be processed?

Kerry wrote he was concerned about SBA's ability to continue to service the small business community with deep reductions in staff.

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He was troubled by the fact that SBA lacks a succession plan of replacing these skilled employees.

Replacing the 300 employees with 100 “lower-level” employees was equally troubling.

Kerry wrote, “SBA’s lacks a succession plan to prevent the loss of skilled, experienced staff at the SBA before they could mentor and train replacements . . . where there is a significant difference in experience level.”

SBA Employees Concern

SBA Administrator **Hector Barreto** touts the agency’s centralized processing of guaranty purchases in Herndon, Virginia as an excellent example of how the government should transform its operations to deliver a consistent product faster and at lower costs.

Lenders at the recent Coleman Publishing SBA lender’s senior management reported good experiences with the centralized guaranty purchase process although one noticed a recent change. He commented, “While they working to catch up on their backlog we were receiving fairly timely payments. However, that trend has slowed lately.”

To obtain an insider view we found a post on a web site hosting a forum for SBA employees about transformation. (www.sbagateway.com)

The poster, named **Faceman**, succinctly articulates an opposing point of view shared by many rank and file SBA employees of the perils of centralization.

While some of the conclusions the poster makes are debatable, what is not disputable is many SBA employees believe as **Faceman** does — something lenders need to understand for dealing successfully with the agency.

Writing about the current buyout **Faceman** posts, “Bringing on 7’s as replacements for departing 12’s is an interesting succession plan.

“Herndon is a precedent where they have done just that – obviously not very successfully.

“It hasn’t worked well in Herndon, I’m not sure why HQ would expect it to work in the field.

“Field work is generally more diverse and requires a broader field of knowledge to deal with finance, servicing and liquidation issues -- including non-financial programs such as government contracting, counseling and training, surety bonds and advocacy.

“It also requires the ability to interact with borrowers, lenders, elected officials, government agencies and private sector organization.

“As any of us ‘old hands’ can tell you, it

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takes many years to acquire the knowledge and skills necessary to function successfully.

“It comes back to the same old think – I’m afraid management just really doesn’t care. As long as the numbers are there – even if they are largely unproductive \$5,000 CommunityExpress loans – management doesn’t really give a hoot about small businesses, job creation, enhancement of revenues, or any of the other things we should be accomplishing with taxpayer dollars.

“I feel sorry for lenders what will likely in the future have to try and have their questions and problems addressed by inexperienced 7’s fresh out of school. Good luck.”

Transformation

“The whole transformation fiasco is being bought hook, line and sinker by Congress and others on the ‘outside.’

“Without the intimate knowledge we insiders have, many of the transformation problems are simply transparent. Those of us on the inside know better, of course.”

“Not only is management blind to the chaos created by the portfolio manage-

ment purge, it apparently is going to repeat its mistake with finance division. We are abandoning those lenders, and borrowers, that need us the most.”

Herndon

Not only is management blind to the chaos created by the portfolio management purge, it apparently is going to repeat its mistake with finance division. We are abandoning those lenders, and borrowers, that need us the most.

*Anonymous
SBA District Employee*

The poster acknowledges a number of lenders have positive experiences with Herndon.

But adds, “However, I can tell you that lenders in my statewide district are not happy. Yes,

a few have been satisfied with the service, but the vast majority of them are disgusted. The biggest problem is the lack of communication. The inability to talk to a real person is frustrating.”

Faceman charges centralized liquidation favors large lenders at the expense of small lenders.

“Management has made a conscious decision to mask the truth by cutting corners and letting the big banks get away with murder, while providing poor service to the smaller lenders that really need us as a partner to continue providing access to capital to accomplish economic development and job creation in small communities.

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“By cutting corners our recoveries are suffering.

“I’m not sure if the agency can survive if our losses begin to escalate and we lose our smaller lenders.

“Are we becoming nothing more than corporate welfare for **Bank of America** and **Capital One**?

“Do you really think the 7(a) zero subsidy will hold up if our losses continue to rise?

Conclusion

We find it perplexing the March 14 announcement of a buyout is a stand alone event. There is not a corresponding announcement of the establishment of future centralized processing centers.

The key question we have about the elimination of senior district finance division personnel is how SBA plans to process 7 (a) GP and CLP loans in the districts absence of centralization of these functions?

Will effective dates of buyouts overlap centralized functions?

It is hoped the lag caused by centralizing guaranty purchases is not repeated in the GP and CLP processing arena.

What are the pressures upon SBA man-

agement in this process?

First, contrary to **Faceman**’s assertions we believe there is the self-imposed pressure to avoid a repetition of the chaos imposed upon the industry by a shoddy process that was evident in implementing centralization of guar-

anty repurchases.

Second, there will be pressures imposed by the Senate Democratic staff, although with their

minority status they won’t be able to take it exact much of an influence other than saber-rattling.

However, the SBA employee’s union will have its say. The union must sign off on any reorganization plans that coincide with staff reductions and will be a force to be reckoned with.

Finally, lenders should have an input in this process.

After all, they will be directly affected by changes in the processing of their 7(a) GP and CLP loans.

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