U.S. Small Business Administration

Washington, D.C. 20416

OFFICE OF
INSPECTOR GENERAL

March 18, 2003

TO: James Rivera
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Office of Financial Assistance

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FROM: Emilie M. Baebel
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SUBJECT: Report on *Guaranty Purchase Processing: Directors' Survey Responses*
and *Loan Officers' Survey Responses*

We are pleased to submit the enclosed report which contains responses to two surveys,
one of District Directors and the other of SBA loan officers. The surveys were conducted
in conjunction with the OIG "Audit of the Guaranty Purchase Process."

Because these two surveys address similar issues, the results are being released as one
document. This report presents the answers to respondent surveys by District Directors
and Branch Managers as well as SBA Loan Officers and other employees who are the
primary processors of guaranty purchase requests. The surveys were conducted to
determine the respondents' experience with the purchase process. The mailed surveys
were carried out in conjunction with an audit of the purchase process. Any
recommendations regarding the purchase process will be included in the Audit report.
However, because of the importance of the purchase process, the strong response rates to
the surveys, and the volume of respondent comments, OIG is issuing this separate report.

The Directors' survey focused on workload, management, and the purchase process.
Directors' responses indicated that most offices receive three or fewer purchase requests
per week; about half of the respondents reported a small backlog. A slight majority of
the respondents indicated their decisions to deny purchase requests were supported by

headquarters, although a vocal minority disagreed. An overwhelming majority reported that their offices had found it simpler to ask the lender to repair or withdraw the guaranty request. Most Directors indicated that while the entire lender file was not needed to appropriately process a purchase request, additional documents would be helpful. They also reported using different criteria for various lenders and loans.

The Loan Officers' survey focused on the following areas related to processing purchase requests: workload; management; the review process; individual experience; documentation; training; risk assessment; monitoring; and communication. Responses indicated that most officers review 3 or fewer purchase requests per week; most have 5 or more years' experience and spend less than 25% of their time conducting purchase reviews. Most respondents indicated that the SOP needs to be strengthened and very few have received formal training. Most did not believe their denial recommendations are supported by headquarters. Most reported that the major reason for using different criteria for various lenders is because of poor performance by the particular lender. While most reported that they query for flags, they also reported that their recommendations are not influenced by the flag. These and numerous other issues are explained in greater detail in the report. Drafts of the two reports were provided to the Office of Capital Access; the Office of Financial Assistance, the Office of Field Operations and the Office of General Counsel.

We would like to express appreciation for the excellent response rate from the field. The high degree of respondents' participation, both from District Directors and Branch Managers, as well as loan officers, greatly added to the meaning and content of the responses.

Guaranty Purchase Processing:
Directors' Survey Responses
and
Loan Officers' Survey Responses

March 18, 2003

Report No. 3-16

Office of Inspector General
Inspection and Evaluation Division
U. S. Small Business Administration

REPORTS ON GUARANTY PURCHASE PROCESS SURVEYS
TABLE OF CONTENTS

Executive Summary

This report includes responses to two surveys relating to the SBA Guaranty Purchase process which were mailed in May, 2002. The surveys were conducted in conjunction with the OIG "Audit of the Guaranty Purchase Process." Recommendations regarding the purchase process will be included in the Audit report.

The responses of SBA District Directors and Branch Managers are reported in the section titled "Guaranty Purchase Process: Directors' Survey Responses." More than 88% (N=66%) of all District Directors and Branch Managers responded to the survey. Directors' responses indicated that most offices receive 3 or fewer purchase requests per week; about half of the respondents reported a small backlog. Most of the respondents had recommended denials and a slim majority indicated those decisions were supported by headquarters, although a vocal minority disagreed. An overwhelming majority reported that their offices found it simpler to ask the lender to repair or withdraw the guaranty request. Regarding the review process, most Directors reported that they do not believe the entire lender file is needed to appropriately process a purchase request, but that additional documents would be helpful. They also reported using different criteria for various lenders and loans, and noted a wide range of possible reasons for this.

The responses of loan officers are reported in the section titled "Guaranty Purchase Process: Loan Officers' Survey Responses." More than 77% (N=149) of all loan officers responded to the survey. Responses indicated that most officers review 3 or fewer purchase requests per week; most have 5 or more years' experience and spend less than 25% of their time conducting purchase reviews. Most respondents indicated that the SOP needs to be strengthened and that they use additional, internal documents to inform their review process. Most respondents did not believe their denial recommendations are supported by headquarters and very few have received formal training. Most reported that they consider a limited number of factors in conducting the reviews and, where they do use different criteria for different lenders, it is due to poor performance by the particular lender. While most reported that they query for flags, they also reported that their recommendations are not influenced by the flag.

Guaranty Purchase Process: Directors' Survey Responses

Introduction

This section presents responses to one of two surveys regarding the SBA Guaranty Purchase process. One survey instrument was sent to District Directors and Branch Managers and the second to Loan Officers. These respondent surveys were conducted in conjunction with an OIG audit of the Guaranty Purchase process. The purchase process is important because it is the final control for insuring that lenders comply with rules and regulations that govern the guaranteed loan program. During the planning of the audit, various issues emerged which resulted in OIG determining that a survey of SBA field staff could provide useful information, based on their observations. Therefore, District Directors were asked to complete a survey instrument on workload, management, and the purchase process. The major purpose of the survey was to gain the Directors' perceptions regarding their experience with these aspects of the purchase process. The companion report covers the responses of loan officers to a separate questionnaire.

The results of this respondent survey are significant. In addition to the importance of the purchase process, the exceptional response rate indicates that Directors and Branch Managers have strong opinions about the issue of the purchase process. Respondents also took advantage of the opportunity to include some very direct comments. The responses are being analyzed in conjunction with other information as part of the OIG audit, therefore any recommendations on the purchase process will be included in that report. However, because of the importance of the purchase process, as well as the strong response rates, OIG is issuing this separate, informational report.

All the results in this report are taken from the data submitted by the 66 District Directors or Branch Managers who answered questions on the Directors' survey. Results from each question are illustrated in the following pages. The question is included in the header of each table; most tables are illustrated by accompanying graphs. Respondents provided a number of comments. Because of the magnitude of the response, it is impossible to include all of them here; however, representative examples are provided. Some comments are paraphrased for brevity; in a few instances this is done to omit identifying information about the respondent. The analysis of each question follows the table and graph. With very few exceptions, there was a great deal of unanimity in the answers of this group. Most answers include a category where 50% or more agreed. Given the significant response rate, this measure of agreement further strengthens the validity and reliability of the results.

Methodology

Pen and paper survey forms were mailed to a total of 79 SBA employees identified as Branch Managers or District Directors; included responses were received by June 28, 2002. The survey instrument was tested in April, 2002. The purpose of the survey was to get the perspective of these Managers and Directors regarding the Guaranty Purchase process. (A copy of the instrument and cover letter are found in Appendix I). The recipients' names were obtained from SBA records. The entire population (N=79) received copies of the survey instrument.

A total of 70 replied, giving us an overall response rate of 88.6%. However, 4 of the original respondents disqualified themselves because their offices did not perform purchases. Thus, the base rate for the total number of respondents who completed some or all of the survey is 84% (N=66). The answers from each instrument were entered into an Access database and the tables and graphs used for analysis in the following section were derived from that original information.

In some cases, not all respondents answered every question. Thus, the number of responses varies across different questions. However, the actual number of respondents to each question is always indicated in the table. At times, depending on the nature of the question, the "no responses" are included and that number is also indicated in each applicable table. In some cases, the percentages do not add up to exactly 100% due to rounding.

Standard social science methodology was used in compiling the respondent list, phrasing the questions, and reporting the responses. Additional documents were used for contextual information in the preparation of the survey instruments. The overall response rate is quite significant and adds an appreciable measure of reliability to the findings. We have reported these results for information. It is important for the reader to keep in mind that this instrument measures the perceptions of those people who chose to respond to the survey.

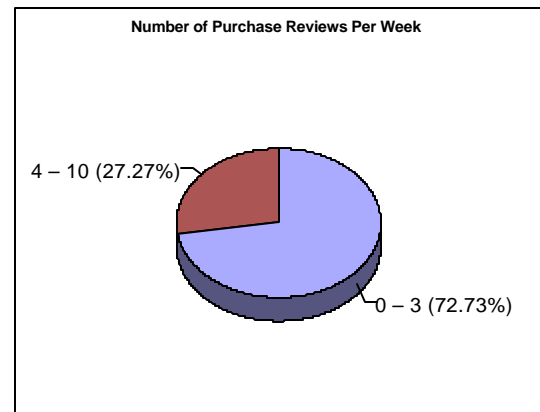<p style="text-align:center">**Results**</p>

I. Time/Workload

Questions in this first section of the Directors' survey asked respondents for their perception regarding their office's workload. Most directors reported that their offices receive and complete 3 or fewer purchase requests per week; most have 3 or 4 employees who process purchase requests. The majority reported that they have a small backlog.

I. Time/Workload

In this section, we ask about your office's workload.

Q. 1

On average how many purchase reviews does your office complete per week?		
	Number	**Percentage**
0 – 3	48	73%
4 – 10	18	27%
11 – 15	0	
16 or more	0	
Total	66	100%

The Directors reported that most of their offices (N=48, 73%) complete 3 or fewer purchase requests per week. A few (N=18, 27%) complete 4 to 10. No directors reported that their offices completed more than 10 purchase requests per week.

Q. 2

On average how many purchase requests does your office receive per week?		
	Number	**Percentage**
0 – 3	45	70%
4 – 10	18	28%
11 – 15	1	2%
16 or more	0	
Total	64	100%
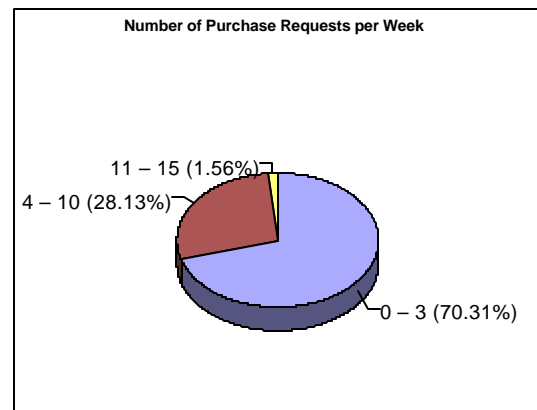
The Directors reported that most of their offices (N=45, 70%) receive 3 or fewer purchase requests per week. More than ¼ (N=18, 28%) reported receiving 4 to 10 purchase requests per week. Only one director (2%) reported receiving 11 or more purchase request per week.

<p style="text-align:center">3</p>

Q. 3

How many personnel currently conduct purchase reviews? (Write the number.)		
	Number	**Percentage**
0 - 2	22	33%
3 – 4	26	39%
5 – 8	16	24%
No response	2	3%
Total	66	99%

Number of personnel who conduct purcha
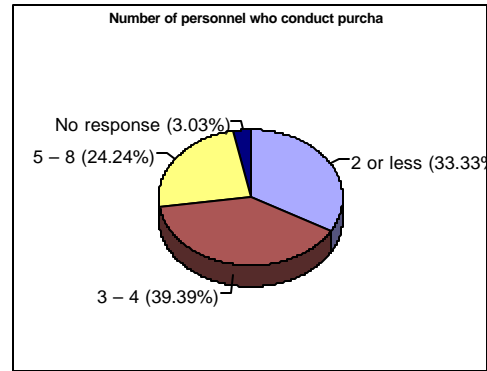
Most offices (N=26, 39%) reported 3-4 employees conduct purchase reviews. Less than ¼, (N=16, 24%), reported that 5 or more employees conduct purchase reviews. Several commented that they had part-time employees conducting the reviews.

Q. 4

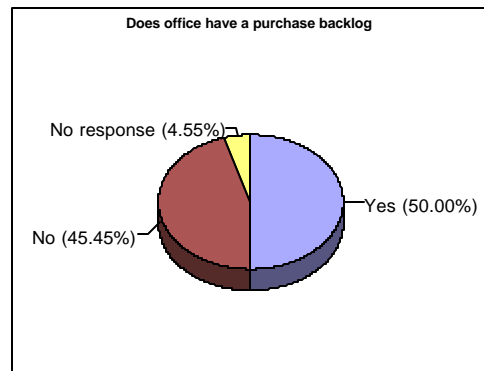| Does your office have a purchase backlog?		
	Number	**Percentage**
Yes	33	50%
No	30	45%
No response	3	5%
Total	66	100%

Does office have a purchase backlog

One-half, (N=33, 50%) of the director respondents reported they have a backlog. Thirty (45%) of the respondents said they have no backlog; the remainder (N=3, 5%) did not reply to the question.

Q. 4a

If yes to question 4, what is your purchase backlog?		
	Number	**Percentage**
0 – 25	24	73%
26 – 50	7	21%
51 – 100	2	6%
Total	33	100%
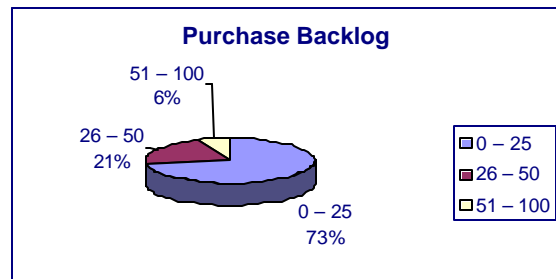
Purchase Backlog

Of the 33 who reported having a backlog, most directors (N=24, 73%) reported a backlog of 25 or fewer purchase requests. Only a small minority (N=2, 6%) reported having a backlog of more than 50 purchase requests.

II. Management

Questions in the second major section addressed management issues specific to the guaranty purchase process. As the following information details, most offices have made at least a few denial recommendations to headquarters. A majority of the respondents reported that their decisions are supported by headquarters, but some strong comments are included by those whose experiences have been different. A significant majority of Directors reported it was simpler to have the lender repair or withdraw the purchase request than it is to recommend a denial.

II. Management

Given all the changes that have occurred in recent years, this section addresses your perceptions regarding whether headquarters supports your office's guaranty purchase decisions.

Q. 5

Has your office ever made a recommendation to deny a guaranty?		
	Number	Percentage
Yes	46	70%
No	18	27%
No response	2	3%
Total	66	100%

Has Your Office Made a Recommendation to Deny
No response 3%
No 27%
Yes 70%
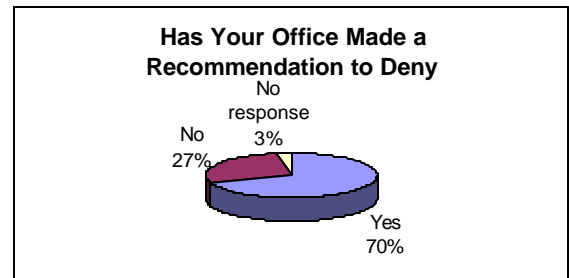
A clear majority (N=46, 70%) of the respondents stated that their offices have made a recommendation to deny a guaranty. Just over ¼ (N=18, 27%) reported that their offices have not made such a recommendation.

Q. 6

Over the past 3 years, how many denials have you sent to D.C. Headquarters?		
	Number	Percentage
1	11	38%
2	9	31%
3	5	17%
4	1	3.5%
5	1	3.5%
7	1	3.5%
12	1	3.5%
Total	29	100%

Number of Denials sent to DC HQ
12 denials 1
7 denials 1
5 denials 1
4 denials 1
3 denials 5
2 denials 9
1 denial 11
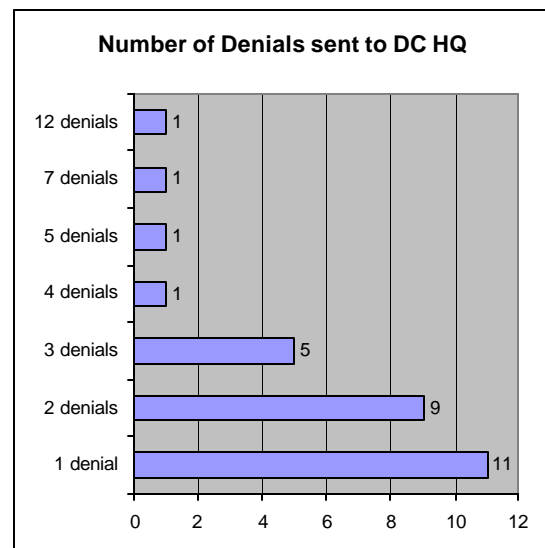
According to the director respondents (N=29), most offices (N=11, 38%) have sent in only 1 denial to D.C. Headquarters within the last 3 years. Nine offices (31%) reported having sent 2 denials; three offices (17%) reported having sent in 5 denials. Four other offices reported having sent in 4, 5, 7, and 12 denials each.

Q. 7

In your experience, do you find that headquarters supports your recommendations to deny a guaranty?		
	Number	**Percentage**
Often	21	52%
Occasionally	12	30%
Never	7	18%
Total	40	100%

HQ Supports Denial Recommendations

- 18%
- 30%
- 52%
- Often
- Occasionally
- Never
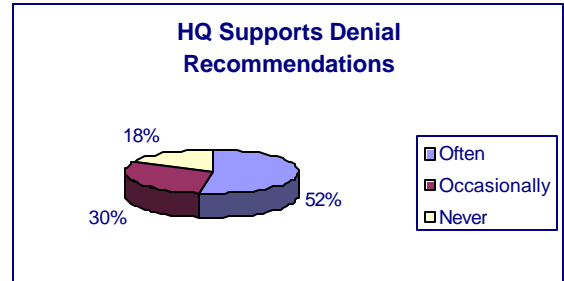
Twenty-three respondents (not depicted in table or graph) reported that they had never submitted a denial to headquarters. However, of the 40 who reported they had submitted denials, more than half (N=21, 52%) stated that their recommendations are often supported by headquarters. Twelve (30%) reported that headquarters supports their recommendations occasionally. Seven (18%) reported that their denial recommendations are never supported by headquarters.
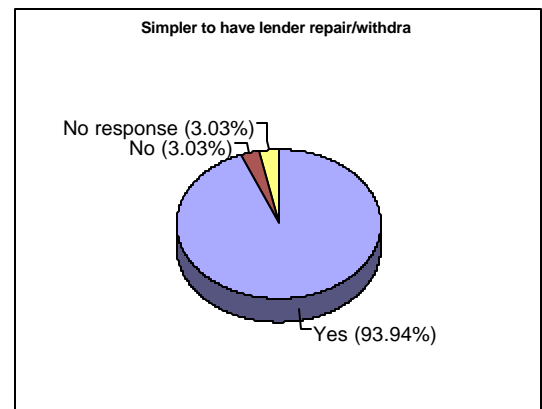
Although this is a low percentage, it is not a silent minority. Comments such as "We might have sent more, except it takes months, and sometimes years, to get an answer;" and "we sent a 'denial of liability' (after purchase) to HQ nearly two years ago - they still have not resolved the issue; we really question the 'customer service' attitude and activities of HQ personnel involved in these types of issues; we are reluctant to go through this again;" as well as "Headquarters should not second guess on issues of subjective matters," indicate that there is a strong, if minority, opinion in the field that headquarters is not supportive of denial recommendations.

Q. 8

Has it been your experience that it is simpler to have the lender repair or withdraw a guaranty rather than recommend a denial?		
	Number	**Percentage**
Yes	62	94%
No	2	3%
No response	2	3%
Total	66	100%

Simpler to have lender repair/withdra

- No response (3.03%)
- No (3.03%)
- Yes (93.94%)

In spite of the 21 respondents who reported in question 7 that their recommendations are supported, an overwhelming 94% (N=62) reported that it is simpler to have the lender repair or withdraw a guaranty rather than recommend a denial. Only 3% (N=2) reported that it is not simpler; the remaining 3% did not respond to this question.

One respondent commented that the majority of repairs are caused by lenders' failure to properly close loans; another noted that repairs are only pursued if there is a loss, or potential loss, to the agency.
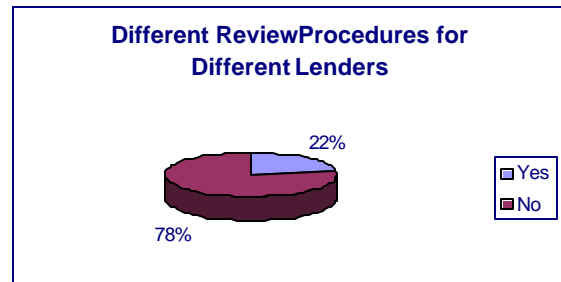
III. Review Process

These questions were asked to uncover the similarities and differences in review processes for different types of loans as well as the various issues that might affect the assessments of the purchase requests. Questions also pertained to documentation that would assist in the process. No single clear issue emerged as a reason for different treatment; the range of responses is included for information purposes. According to these respondents, PLP and LowDoc loans get a somewhat closer look during reviews. Consistently, the factors mentioned most frequently as <u>not</u> being considered for all types of loans when under review are repayment ability and creditworthiness. Finally, most Directors did not believe the entire lender file is necessary for a purchase review, but they note that some additional documentation would be helpful.

III. Review Process

The questions in this section will tell us more about the review process that is used in your office.

Q. 9

Are there situations in your office that warrant different review procedures for different lenders?		
	Number	**Percentage**
Yes	14	22%
No	50	78%
Total	64	100%

Different ReviewProcedures for Different Lenders

Of the 64 Directors who responded to this question, a majority (N=50, 76%) indicated that review procedures for all lenders were the same in their offices. Only 15 (21%) said that they used various procedures for different lenders.

Q. 10

Do these situations involve any of the following? (Check all that apply)	
	Number
Size of lender	4
Bank v. non-bank lender	4
Number of SBA loans processed by lender	4
Number of defaults by lender	3
Number of repairs by lender	5
Other	11

Reasons for Different Procedures

Category	Value
Other	11
Number of repairs by lender	5
Number of defaults by lender	3
Number of SBA loans processed by lender	4
Bank v. non-bank lender	4
Size of lender	4
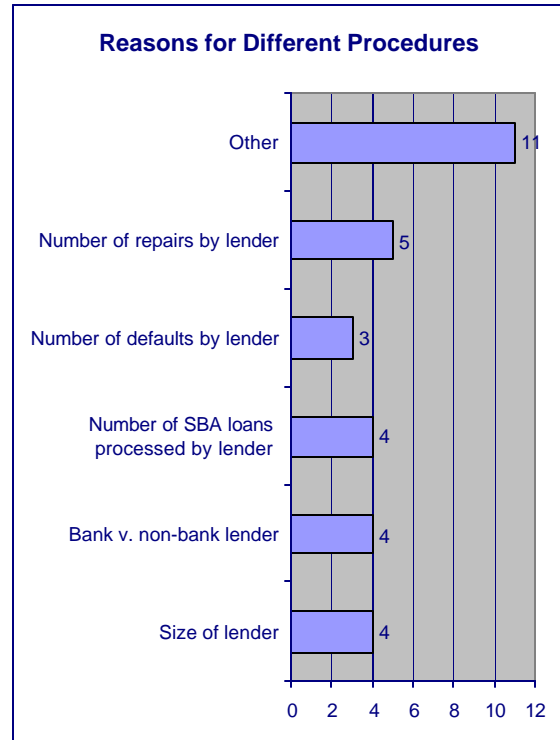
There is no clearly outstanding reason named by District Directors for using different guaranty procedures in their offices. As one respondent noted, reviews are done on a case by case basis. Even the "Other" item did not list any particularly outstanding characteristic the offices use. Every possible selection represents less than 1/10 of the total respondents. Respondent comments in the "other" category include considering the dollar amount of the deficiency; the need to more thoroughly review PLP loans; and lenders who have a large percentage of repairs or denials. Three respondents noted that loans sold in a secondary market require a post-purchase review.

Q. 11

When reviewing specific cases for guaranty purchase, do you request the entire lender's file?		
	Number	**Percentage**
Yes	8	13%
No	56	87%
Total	64	100%

Request Entire File

13%

87%

- Yes
- No
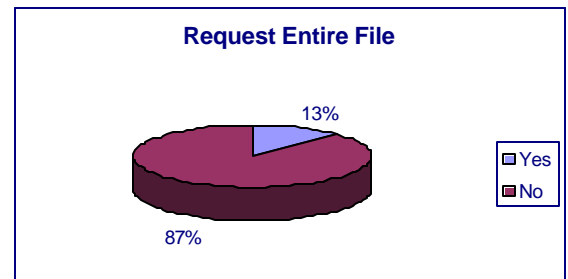
A great majority of Director respondents (N=56, 87%) reported that they do not request the entire lender's file when doing a purchase review. Only 8 (13%) request the entire file.

Q. 12

When reviewing specific cases for purchase, would it be useful for the reviewer (recommending official) to have the entire file from the lender?		
	Number	**Percentage**
Yes	20	30%
No	43	65%
No Response	3	5%
Total	66	100%

Would entire lender's file be useful

No response (4.55%)
Yes (30.30%)
No (65.15%)
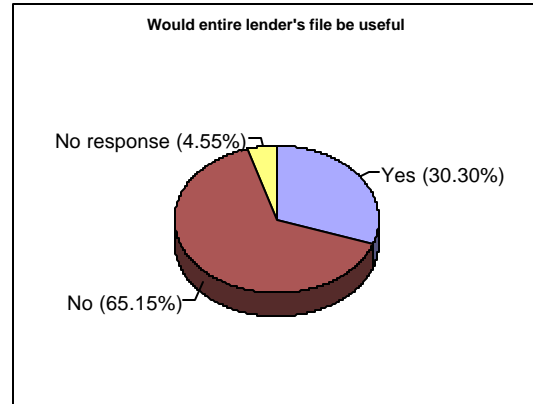
Sixty five percent (N=43) of the respondents reported that it would not be useful for reviewers to have the entire lender's file. Only thirty percent (N=20) report that the entire file would be useful, one commenting "Without question (!!!)." Another added that while it might be useful, it was not very practical. As noted, 3 respondents (5%) chose not to answer this question.

Q. 13

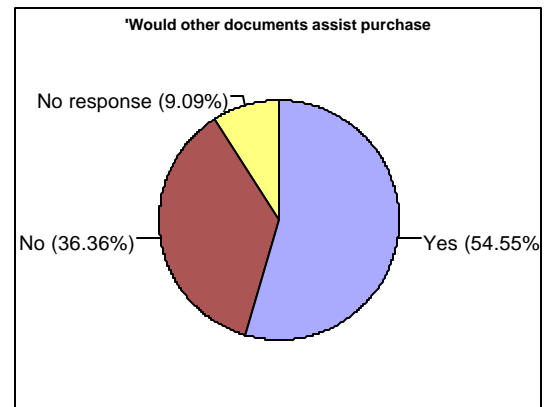| If not the entire lender file, are there other documents that would assist you in your purchase reviews?		
	Number	**Percentage**
Yes	36	55%
No	24	36%
No Response	6	9%
Total	66	100%

'Would other documents assist purchase

No response (9.09%)
No (36.36%)
Yes (54.55%)

Just over half (N=36, 55%) of the respondents reported that other documents would assist purchase reviews. More than 1/3 (N=24, 36%) reported that additional documents would not assist reviews; 6 (9%) did not respond to this question.

This question elicited a number of respondent comments. Almost every conceivable document was mentioned. Supporting documentation for UCC filings and equity injections were named most frequently. As one respondent noted, it is difficult to list other documents "because they can vary so much in each individual case and between district offices." This respondent noted the usefulness of the nation-wide checklist now being prepared, the need to update the SOP, as well as the need for standardized training for district offices and lenders "so that everyone knows what is expected of them and there will be more consistency between offices."

One respondent noted that items on the checklist are "more than sufficient." Another Director noted that the "guaranty purchase process has gotten too complicated . . . the IG and the central office staff second guess field purchasing decisions . . . using the same information that the field office used to make a purchase decision, the IG and OFA are coming back to the field and having them go back to the lender to ask for money back. This totally destroys the lending community's faith in the SBA's guaranty. We and Congress must accept the fact that the government is going to recover less money and occasionally take a hit from a less than honest or knowledgeable lender." This Director's final comment: "We also need to reduce Legal Council's (sic) ability to force purchase decisions to Washington every time they have a minor objection to a purchase."

Q. 14, Q. 15, Q. 16

In questions 14-16, Directors were asked to check which of the following factors (listed below) their loan officers do NOT consider when conducting reviews for particular types of loans. Question 14 asked about PLP and LowDoc; question 15 asked about CLP; question 16 referred to regular loans.

Factors NOT Considered in Purchase Reviews:	
*repayment ability	*creditworthiness
*equity injection	*conflict of interest
*use of proceeds	*eligibility
*collateral missing	*IRS verification
*collateral not controlled	*collateral insufficient
*adverse conditions between approval & disbursement	*standby agreement
*adverse conditions after disbursement	*other
	*all of the above

All Items Are Considered During Purchase Reviews

Some respondents to questions 14, 15, and 16 indicated that reviewing officials in their respective offices considered all of the listed items. The following chart shows the number of District Directors who reported that their loan officers considered all items.

Respondents who Consider ALL Items		Number	Percent of Total Respondents (N=66)
(Q. 14)	PLP and LowDoc	27	41%
(Q. 15)	CLP	18	27%
(Q. 16)	Regular	18	27%

Directors' responses that their loan officers consider all items indicated that PLP and LowDoc loans get the closest look when their guaranty requests are undergoing review. However, results showed that less than half of the offices review all factors even with PLP loans. Even fewer offices reported examining all factors for CLP and regular loans; just over ¼ of the Directors indicated that all items are considered when these loans are reviewed.

Q. 14

Items which are <u>not</u> considered for PLP and Low Doc Reviews	
equity injection	2
other	2
adverse conditions b/n approval & disbursement	3
IRS verification	3
adverse conditions after disbursement	7
eligibility	11
collateral insufficient	24
creditworthiness	31
repayment ability	33
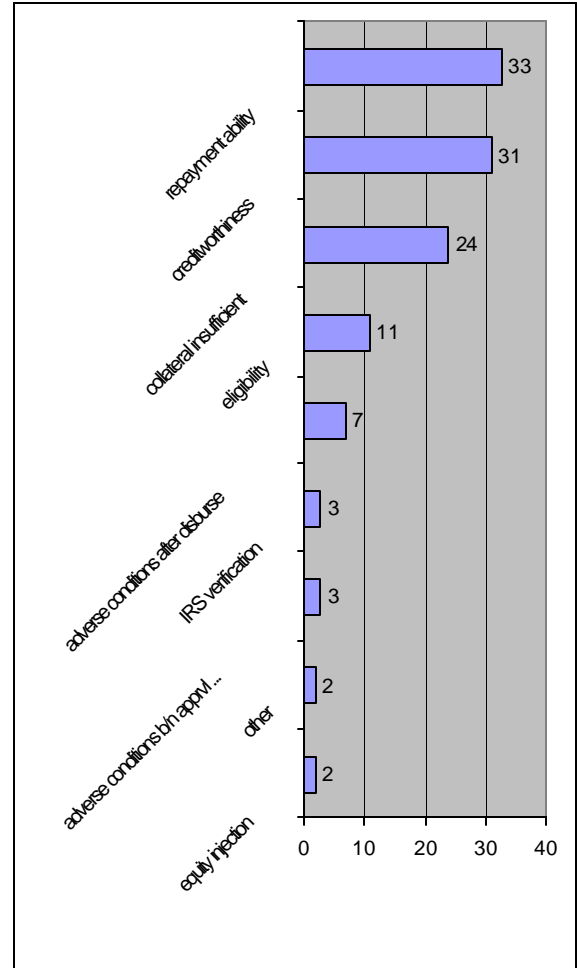
In answering question 14, Directors and Branch Managers indicated that repayment ability (N=33) and creditworthiness (N=31) are most frequently <u>not</u> considered during purchase reviews for PLP and LowDoc loans.

Q. 15

Items which are not considered for CLP Reviews	
collateral missing	1
collateral not controlled	1
standby agreement	1
equity injection	2
use of proceeds	2
adverse conditions b/n approval & disburse	3
conflict of interest	3
IRS verification	5
adverse conditions after disburse	8
eligibility	24
collateral insufficient	30
creditworthiness	38
repayment ability	39
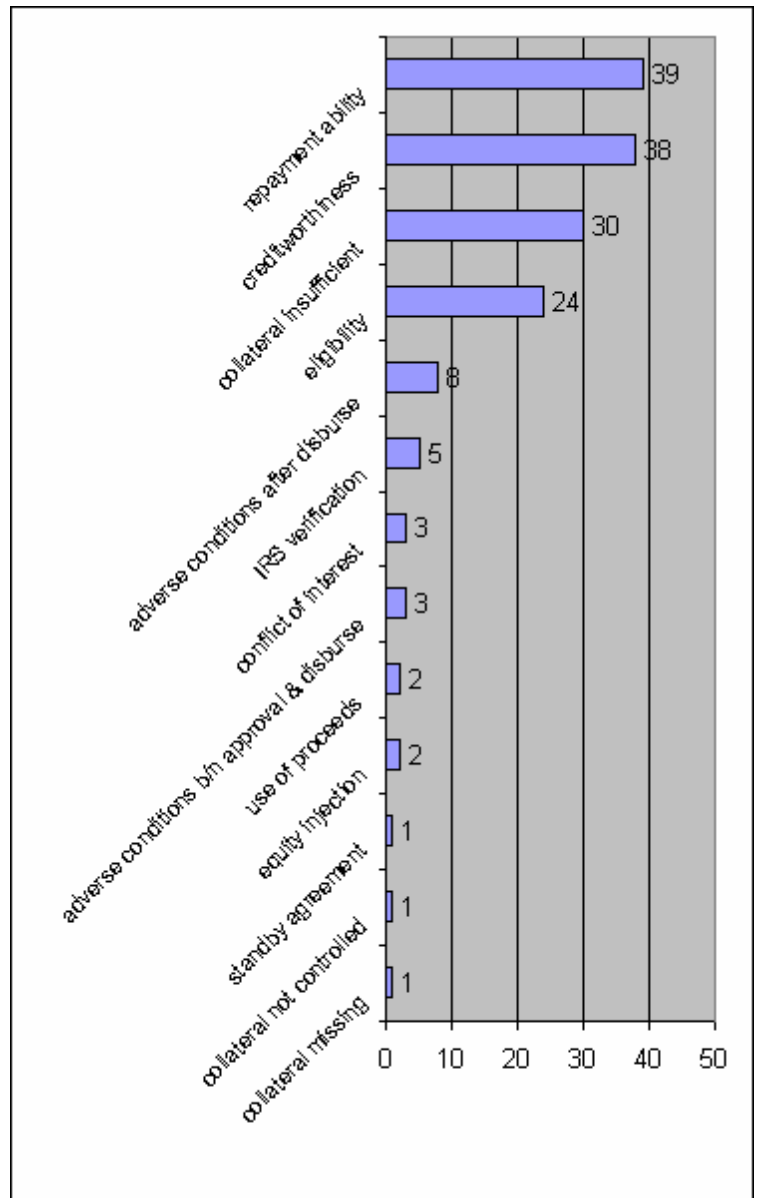
Every possible factor was mentioned at least once as not being considered when conducting purchase reviews for CLP loans. As in question 14, the two most frequently ignored factors are repayment ability (N=39) and creditworthiness (N=38).

Q. 16

Items which are <u>not</u> considered for regular Reviews	
use of proceeds	1
conflict of interest	2
other	2
equity injection	3
IRS verification	3
adverse conditions b/n approval & disburse	4
adverse conditions after disburse	6
eligibility	26
collateral insufficient	31
creditworthiness	37
repayment ability	41
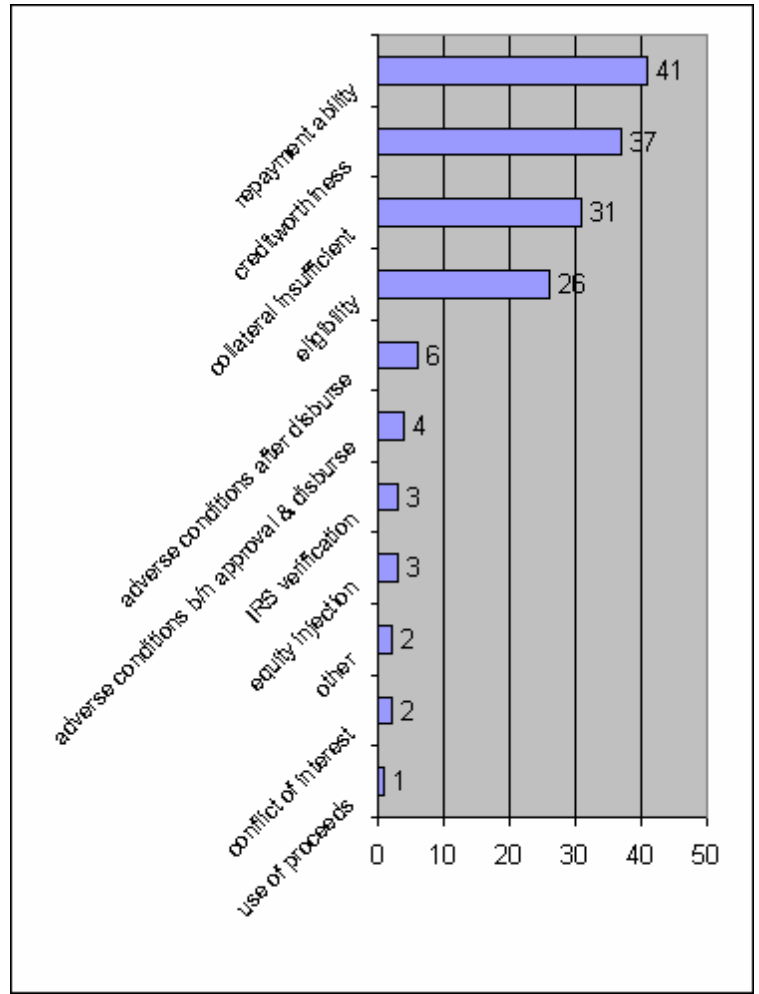
As in question 15 above, almost every possible factor listed was named at least once as not being considered when doing regular purchase reviews. Similar to questions 14 and 15, the items most frequently <u>not</u> considered are repayment ability (N=41) and creditworthiness (N=37).

Comments in response to questions 14, 15, and 16 explained why they do not consider all of the factors listed. Directors shared the notion that these loans were reviewed at the time of loan approval; the second most common comment was: "we do not second guess credit decisions.

General Comments

Q. 17
This question provided an opportunity for respondents to make any additional comments that occurred to them as they completed the survey instrument. As might be expected, respondents addressed a range of issues and did not always agree.

One director suggested SBA implement a requirement for purchase to follow liquidation. A common theme was the need to standardize purchase procedures and share review findings across districts. Several suggested additional training for district loan specialists. One respondent requested a purchase SOP; another added that the SOP should be improved to provide sufficient detail and examples of evidence for such aspects as equity injection, adequate servicing, and protection of collateral.

Who should be conducting purchase reviews was another topic – one respondent noted that they should be done by "District Office personnel with a financial background who are familiar with lenders, business climate and institutional memory;" another countered that the "agency proposal to centralize loan purchases is a good idea."

Appendix to Directors' Survey Responses

Directors' Cover Letter

April 26, 2002

Title FName LName
Job Title
Company
Address
City state zip

Dear Mr/Ms:

As you may be aware, the Office of Inspector General is performing an audit of SBA's guaranty purchase process. As a part of the audit, we are surveying field office personnel who make recommendations regarding loan guaranty purchases. We want to include you, the District Directors, in our survey. The purpose of the enclosed questionnaire is to gain information in order to improve the guarantee purchase process. As a person directly involved in the purchase process, your contribution is valuable.

Our pilot showed that it takes approximately 12 - 15 minutes to complete the survey. Although it is not mandatory for you to complete the survey, our results will be much better with full participation.

We also want to assure you that we are making every effort to ensure your answers remain anonymous. You will notice a hand written number in the top left-hand corner of the return envelope. We will use this number only to track who has and has not responded, so that we can make follow up reminders. Once the response period is completed, the numbers and identifying information will not be retained.

Detailed directions concerning how to indicate your responses are on the first page of the form. Also, each major section begins with information and instructions to help you better answer the questions. If you have any questions or comments about the survey or the guarantee purchase process, please call Laura Makray (202.205.3178).

Please send us your reply by May 17, 2002. We greatly appreciate your efforts in replying to the survey, and thank you in advance for your cooperation.

Sincerely,

Robert G. Seabrooks
Assistant Inspector General for Auditing

Encl. 3 page survey

Director's Guaranty Purchase Survey

This survey contains questions about the guaranty purchase process. Please answer each question carefully. Most of the questions are multiple choice or yes/no. For each of these, please checkmark the line corresponding with the most accurate answer.

For some questions, you are asked to describe or discuss your answer. If we have not provided enough space for you, please use a blank sheet of paper, and be sure to indicate which question you are responding to.

I. Time/Workload

In this section, we ask about your office's workload.

1) On average, how many purchase reviews does your office complete per week?
_____ a) 0 – 3
_____ b) 4 – 10
_____ c) 11 – 15
_____ d) 16 or more

2) On average, how many purchase requests does your office receive per week?
_____ a) 0 – 3
_____ b) 4 – 10
_____ c) 11 – 15
_____ d) 16 – 20
_____ e) 21 or more

3) How many personnel currently conduct purchase reviews? (Write the number.)
_____

4) Does your office have a purchase backlog?
_____ a) yes (If yes, answer 4a below)
_____ b) no

4a) If yes to question 4, what is your purchase backlog?
_____ a) 0 – 25
_____ b) 26 – 50
_____ c) 51 – 100
_____ d) 101 or more (please specify: _____)

II. Management

Given all the changes that have occurred in recent years, this section addresses your perceptions regarding whether headquarters supports your office's guaranty purchase decisions.

5) Has your office ever made a recommendation to deny a guaranty?

_____ a) yes

_____ b) no

6) Over the past 3 years, how many denials have you sent to D.C. Headquarters?

(please write here: _____)

7) In your experience, do you find that headquarters supports your recommendations to deny a guaranty?

_____ a) often

_____ b) occasionally

_____ c) never

_____ d) our office has not submitted a denial to headquarters

8) Has it been your experience that it is simpler to have the lender repair or withdraw a guaranty rather than recommend a denial?

_____ a) yes

_____ b) no

III. Review Process

The questions in this section will tell us more about the review process that is used in your office.

9) Are there situations in your office that warrant different review procedures for different lenders?

     _____ a) yes
     _____ b) no

10) Do these situations involve any of the following characteristics? (Check all that apply)

     _____ size of lender
     _____ bank v. non-bank lender
     _____ number of SBA loans
           processed by lender
     _____ number of defaults by lender
     _____ number of repairs by lender
     _____ other (please explain below)

_____
_____
_____
_____
_____
_____

11) When reviewing specific cases for guaranty purchase, do you request the entire lender's file?

     _____ a) yes
     _____ b) no

12) When reviewing specific cases for purchase, would it be useful for the reviewer (recommending official) to have the entire file from the lender?

     _____ a) yes
     _____ b) no

13) If not the entire lender file, are there other documents that would assist you in your purchase reviews?

     _____ a) yes (please list below)
     _____ b) no

If yes, please list here:

_____
_____
_____
_____
_____
_____

14) Please indicate by marking which, if any, of the following are <u>not</u> considered for <u>PLP</u> and LowDoc reviews:

     _____Repayment ability
     _____Equity injection
     _____Use of Proceeds
     _____Collateral missing
     _____Collateral not controlled
     _____Adverse conditions between
           approval and final disbursement
     _____Adverse conditions after
           final disbursement
     _____Creditworthiness
     _____Conflict of interest
     _____Eligibility
     _____IRS verification
     _____Collateral Insufficient
     _____Standby Agreement
     _____Other (please explain below)

_____
_____
_____

     _____ All of the above factors are considered when doing a PLP or LowDoc review

15) Please indicate by marking which, if any, of the following are <u>not</u> considered for <u>CLP</u> reviews:

_____Repayment ability
_____Equity injection
_____Use of Proceeds
_____Collateral missing
_____Collateral not controlled
_____Adverse conditions between
     approval and final disbursement
_____Adverse conditions after
     final disbursement
_____Creditworthiness
_____Conflict of interest
_____Eligibility
_____IRS verification
_____Collateral Insufficient
_____Standby Agreement
_____Other (please explain below)

_____
_____
_____
_____ All of the above factors are considered when doing a CLP review

16) Please indicate by marking which, if any, of the following are <u>not</u> considered for <u>regular</u> loan reviews:

_____Repayment ability
_____Equity injection
_____Use of Proceeds
_____Collateral missing
_____Collateral not controlled
_____Adverse conditions between
     approval and final disbursement
_____Adverse conditions after
     final disbursement
_____Creditworthiness
_____Conflict of interest
_____Eligibility
_____IRS verification
_____Collateral Insufficient
_____Standby Agreement
_____Other (please explain below)

_____
_____
_____
_____ All of the above factors are considered when doing a regular review

17) Please use the rest of this page, and/or additional paper to make any further suggestions or comments that have occurred to you as you have completed this questionnaire.

Thank you for spending the time to fill out this survey. Please put the completed questionnaire in the enclosed return envelope and mail it back to us.

Guaranty Purchase Review Process: Loan Officers' Survey Responses

Introduction

This section presents responses to one of two surveys regarding the SBA Guaranty Purchase process. These surveys were conducted in conjunction with an OIG audit of the Guaranty Purchase Review process. The purchase process is significant because it is the final control for insuring that lenders comply with rules and regulations that govern the guaranteed loan program. During the planning of the audit, various issues emerged that indicated a value to obtaining the observations and opinions of field personnel responsible for guaranty purchase reviews. We refer to these individuals as "loan officers," even though their jobs include several titles. These SBA field personnel, responsible for Guaranty Purchase Reviews, were asked to complete a survey instrument. The companion report covers the responses of District Directors and Branch Managers to a separate questionnaire. The loan officer survey instrument included questions relative to workload; their individual experience; management; training; the Review process; risk assessment; monitoring; and communications. The survey's major purpose was to obtain the loan officers' perceptions about their experience with these aspects of the purchase review process.

The results of this respondent survey are significant. In addition to the importance of the purchase review process, the exceptional response rate indicates that loan officers have strong opinions about the issue of purchase reviews. Respondents also took advantage of the opportunity to include some very direct comments. The responses are being analyzed in conjunction with other information as part of the OIG audit, therefore any recommendations on the purchase process will be included in that report. However, because of the significance of the purchase process, as well as the strong response rates, OIG is issuing this separate, informational report.

All the results in this report are taken from the data submitted by the 145 SBA field employees who answered questions on the Loan Officers' survey. Results from each question are illustrated in the following pages. The question is included in the header of each table; most tables are illustrated by accompanying graphs. Respondents provided a number of comments. Because of the magnitude of the response, it is impossible to include all of them here; however, representative examples are provided. The analysis of each question follows the table and graph. With very few exceptions, there was a great deal of unanimity in the answers of this group. Most answers include a category where 40% or more agreed. Given the significant response rate, this measure of agreement further strengthens the validity and reliability of the findings.

Methodology

Pen and paper survey forms were mailed to a total of 192 SBA employees identified as conducting guaranty purchase reviews in their local offices; included responses were received by June 28, 2002. The survey instrument was tested in April, 2002. The purpose of the survey was to get the perspective of these loan officers regarding the Guaranty Purchase Review process. (A copy of the instrument and cover letter are found in Appendix I). A total of 149 replied, giving us an overall response rate of 78%. However, 4 of the original respondents disqualified themselves. Thus, the base rate for the total number of respondents who completed some or all of the survey is 77% (N=145). The answers from each instrument were entered into an Access database and the tables and graphs used for analysis in the following section were derived from that original information.

In some cases, not all respondents answered every question. Thus, the number of responses varies across different questions. However, the actual number of respondents to each question is always indicated in the table. At times, depending on the nature of the question, the "no responses" are included and that number is also indicated in each applicable table. In some cases, the percentages do not add up to exactly 100% due to rounding.

Additional documents were used for contextual information in the preparation of the survey instruments. Overall, the response rate is quite significant and adds an appreciable measure of reliability to the findings. However there are a few questions where many of the respondents did not reply. In most of Section IV, Questions 18-22, as well as Questions 30, 31, 32, 38, 39, 41 and 42, a number of respondents chose not to answer. We have reported these results for information. It is important for the reader to keep in mind that this instrument measures the perceptions of those people who chose to respond to the survey.

Results

I. Time/Workload

Questions in this section of the Loan Officers' survey asked respondents for their perceptions regarding their individual as well their office's workload. Most purchase request reviewers reported that their offices receive, and they individually complete, 3 or fewer requests per week. Most respondents also stated that they are given adequate time to complete their work on the requests. The majority begin their work within a week, and most complete the review in less than a month. Most reported that they use the same criteria for all reviews, but numerous caveats were reported.

I. Time/Workload

In Questions 1-7, we ask about your workload, as well as that of your office.
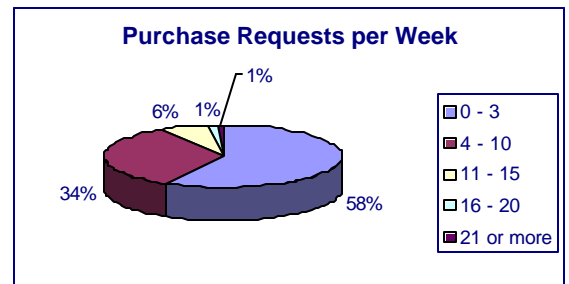
Q. 1

On average, how many purchase reviews do you complete per week?	Number	Percentage
0 - 3	123	85.42%
4 - 10	20	13.89%
11 - 15	1	.07%
16 or more		
Total	144	100.00%
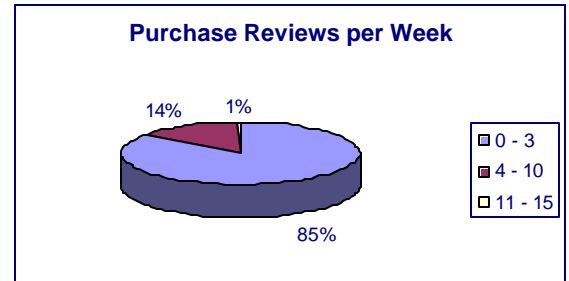
A large majority (N=123, 85%) of loan officer respondents reported that they personally complete 3 or less purchase reviews per week. An additional 20 (14%) respondents reported doing from 4 to 10 reviews; only 1 reported completing more than 10.

Q. 2

On average, how many purchase requests does your office receive per week?	Number	Percentage
0 - 3	81	57.9%
4 - 10	47	33.6%
11 - 15	9	6.4%
16 - 20	2	1.4%
21 or more	1	0.7%
Total	140	99.3%

Of the 140 loan officers who responded to this question, a majority (N=81, 58%) stated that their offices receive 3 or less purchase requests per week. Forty seven officers (34%) reported receiving from 4 to 10 weekly purchase requests. Only 1 (7%) respondent reported receiving more than 20 weekly requests.

Q. 3

Are you given adequate time to do a thorough review of each guaranty request that is assigned to you?	Number	Percentage
5) always	85	60.3%
4)	34	24.1%
3) half the time	12	8.5%
2)	9	6.4%
1) never	1	0.7%
Total	141	99.3%

Given Adequate Time

- 5) always
- 4)
- 3) half the time
- 2)
- 1) never

1% · 6% · 9% · 24% · 60%
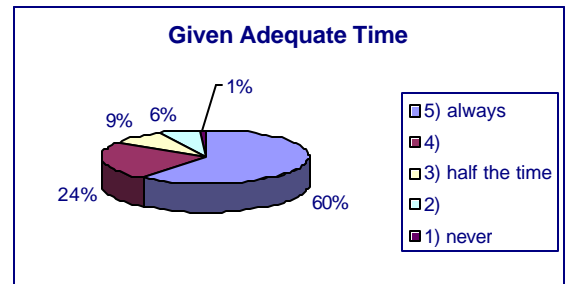
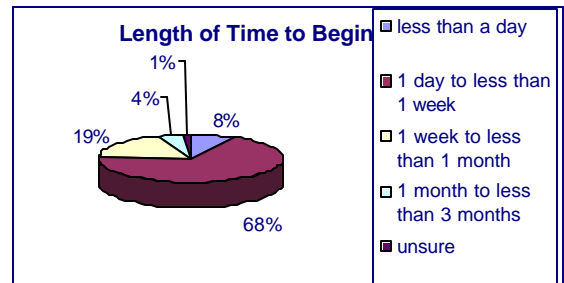Most respondents (N=85, 60%) who answered this question stated that they are given adequate time to complete their assigned requests. Only 1 (7%) reported never being given enough time.

Q. 4

On average, what is the length of time from when you first receive an assignment to review a purchase request and the time you begin your work on that case?	Number	Percentage
less than a day	11	7.7%
1 day to less than 1 week	96	67.6%
1 week to less than 1 month	27	19.0%
1 month to less than 3 months	6	4.2%
3 months or more	0	0.0%
Unsure	2	1.4%
Total	142	100.0%

Length of Time to Begin

- less than a day
- 1 day to less than 1 week
- 1 week to less than 1 month
- 1 month to less than 3 months
- unsure

1% · 4% · 19% · 8% · 68%

Most respondents (N=96; 68%) stated that they begin working on purchase requests in less than 1 week; combined with those who reported beginning the same day (N=11, 8%), the total who begin in less than 1 week is 107 (75%). Only 6 (4%) reported waiting more than a month to begin, 0 reported waiting more than 3 months; 2 were unsure.

Q. 5

Indicate the length of time between when you first receive an assignment to review a purchase request and the time it is completed.	Number	Percentage
less than a day	8	5.7%
1 day to less than 1 week	41	29.3%
1 week to less than 1 month	45	32.1%
1 month to less than 3 months	32	22.9%
3 months or more	7	5.0%
Unsure	7	5.0%
Total	140	100.0%

Length of Time to Begin

- less than a day
- 1 day to less than 1 week
- 1 week to less than 1 month
- 1 month to less than 3 months
- 3 months or more
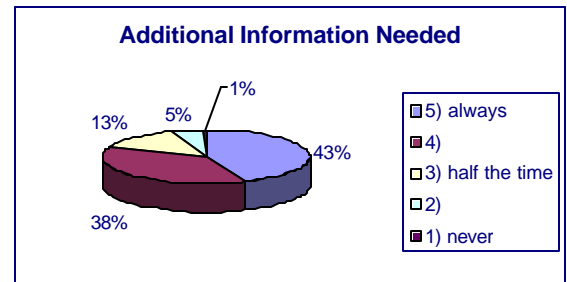- unsure

5%   5%   6%   23%   29%   32%
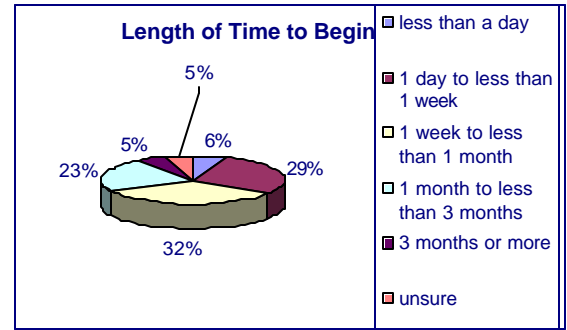
Completing requests seems to take a little longer. Most respondents (N=45, 32%) reported that they complete reviews in 1 week to 1 month. Adding the first two categories, less than a day and less than a week, the reported total is 49 (35%) who finish that quickly.

Several respondents commented on this question, noting that their ability to complete the review in a timely manner is quite dependent on whether the lender provides a total package. "Depends upon bank supplying documentation requested;" "Varies greatly depending primarily on the participant;" "Up to the lender" represent the kinds of comments that were made. One reviewer noted: "Some cases may take months because the lender fails to send the required documentation."

Q. 6

How frequently do you have to ask the lender for additional information?	Number	Percentage
5) always	63	43.8%
4)	54	37.5%
3) half the time	19	13.2%
2)	7	4.9%
1) never	1	0.7%
Total	144	100.1%

Additional Information Needed

- 5) always
- 4)
- 3) half the time
- 2)
- 1) never

1%   5%   13%   43%   38%

These graphs illustrate that a large majority of those doing purchase reviews have to request additional information. While reportedly, 63 (44%) always do, and 54 (38%) do so more than half the time, aggregating these numbers shows that 117 (81%) of the loan officers who answered this question reported they must ask lenders for additional information. Only 8 (6%) respondents reported needing more documentation from the lender less than half the time.

One respondent added that her/his office almost always needs additional documentation, "especially with PLP lenders." As with the previous question, respondents expressed frustration with the lender not providing what is needed: "Often it takes 2 or 3 requests to acquire all needed documentation."

Q. 7

Are all loans, (regular, PLP, CLP) reviewed using the same criteria?	Number	Percentage
Yes	114	78.62%
No	28	19.31%
no response	3	2.07%
Total	145	100.00%

Same Criteria for all Loans

19%   2%
79%
- yes
- no
- no response
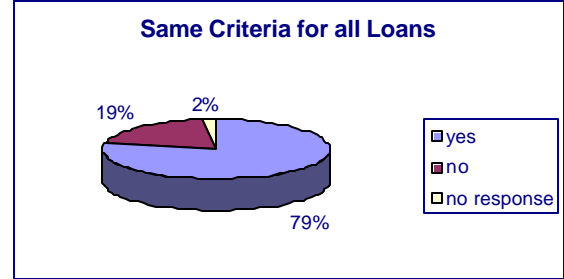
While 3 respondents (2%) chose not to answer this question, the overwhelming majority of those who did answer (N=114, 79%) stated that reviews of purchase requests for all types of loans named in the question are performed using the same criteria.

However, a number of respondents added additional comments to this question. As one respondent noted, "Each has slightly different criteria." Others pointed out that PLP and LowDoc loans require different criteria, and if the loan defaults in a short time, or is flagged: "Additional information is required." Further, several noted that for these loans, credit underwriting and lender actions are scrutinized. Another common theme was whether the district offices had already reviewed the loan; if so, many respondents told us, these purchase requests are given less scrutiny.

II. Individual

The questions in this section focus on the individual respondent completing the survey. The majority of our respondents noted that they as individuals were the primary reviewers of purchase requests. Almost half reported 5 or more years' experience doing purchase reviews; most added that they spend 25% or less of their time completing guaranty requests.

II. Individual

In Questions 8-11, we ask for information that will tell us about your experience in performing guaranty purchase reviews.

Q. 8

In the last 12 months were you the primary reviewer on a guaranty purchase request?	Number	Percentage
yes	122	84.14%
no	23	15.86%
Total	145	100.00%

Primary Reviewer

16%
84%
- yes
- no
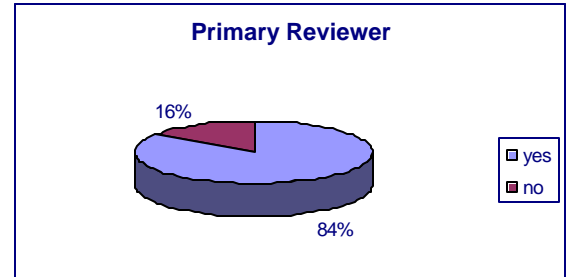
Answers to this question indicate that a large majority (N=122, 84%) of the respondents have served as the primary reviewer on a guaranty purchase request during the 12 months prior to answering the survey.

Q. 9

How long have you been doing guaranty purchase reviews?	Number	Percentage
less than 1 year	15	10.34%
1 year to 3 years	38	26.21%
more than 3 years to 5 years	25	17.24%
5 years or more	67	46.21%
Total	145	100.00%

Purchase Review Experience

- less than 1 year
- 1 year to 3 years
- more than 3 years to 5 years
- 5 years or more
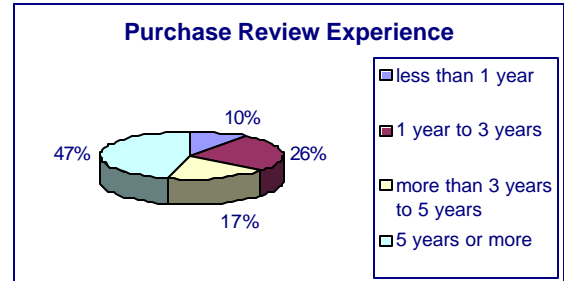
This question reveals that experienced loan officers are in the field, conducting purchase reviews; 67 (46%) reported having 5 or more years' experience; an additional 25 (17%) have 3 to 5 years' experience. Only 15 (10%) reported having less than 1 year's experience.

Q. 10

On an average day, how do you spend your time?	Number	Percentage
100% on guaranty purchase reviews	2	1.4%
75% on guaranty purchase reviews	15	10.6%
50% on guaranty purchase reviews	32	22.5%
25% on guaranty purchase reviews	37	26.1%
less than 25%	56	39.4%
Total	142	100.0%

% of Time doing Reviews

- 100% on guaranty purchase reviews
- 75% on guaranty purchase reviews
- 50% on guaranty purchase reviews
- 25% on guaranty purchase reviews
- less than 25%
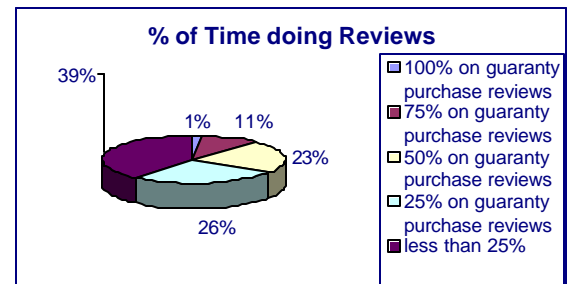
Only 2 (1%) respondents reported spending all their time doing purchase reviews. Most (N=56, 39%) reported they spend less than 25% of their time doing reviews. Thirty seven (26%) reported they spend ¼ of their time doing purchase reviews. Aggregating these two categories, shows that 93 (65%) of the respondents to this question report spending 25% or less of their time conducting purchase reviews. As one pragmatic respondent noted, "It depends on how many have come in."

Q. 11

I am given enough time to thoroughly review all guaranty requests that are assigned to me.	Number	Percentage
5) always	88	62.4%
4)	35	24.8%
3) half the time	11	7.8%
2)	7	5.0%
1) never	0	
Total	141	100.0%

Given Adequate Time
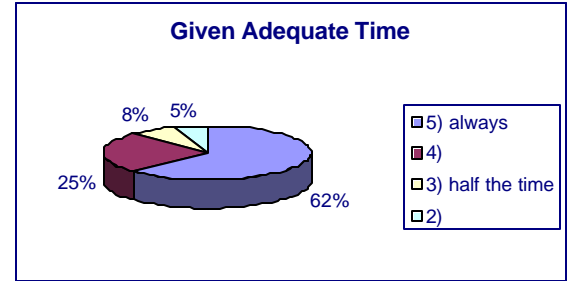
Question 11 confirms Question 3; of the loan officer respondents to this survey, 62% (N=88) are always given enough time to perform thorough purchase reviews. While this is more than half, it means that of the respondents to this survey, a significant 38% reported they are not given adequate time to thoroughly review guaranty requests all of the time.
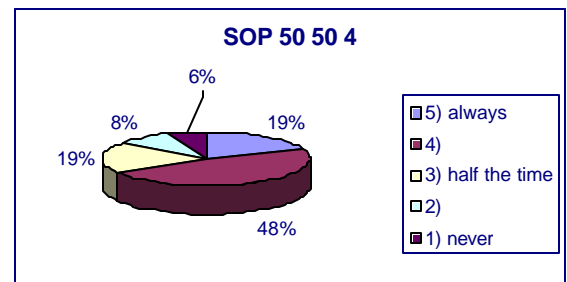
III. Documentation

Questions in this section elicited a substantial number of comments. Most respondents indicated that the SOP provides enough information. However, even more thought it should be strengthened. Several provided specific suggestions. Most reported using internal or informal documentation to guide their purchase reviews. A slim majority believed that the entire lender file would be helpful; an even higher number would like additional documents. The final two questions ask what constitutes adequate evidence of use of proceeds and equity injection. These resulted in a broad range of answers.

III. Documentation

Questions 12-17 are designed to tell us whether you find the documentation which guides the guaranty review process adequate. We also want to know if you have other documentation to guide your review recommendations.

Q. 12

Does SOP 50 50 4 provide enough information for you to make confident determinations about guarantee purchase recommendations?	Number	Percentage
5) always	25	19.2%
4)	61	46.9%
3) half the time	25	19.2%
2)	11	8.5%
1) never	8	6.2%
Total	130	100.0%

SOP 50 50 4

Less than 20% (N=25, 19%) of the 130 respondents to this question answered that SOP 50 50 4 always provided enough guidance. Thus, the aggregated data show that 80% (N=125) of the respondents do not always find adequate guidance in the SOP.

Q. 12 a

Are there particular areas of the SOP relevant to guaranty purchase that you believe should be strengthened?	Number	Percentage
Yes	78	58.65%
No	55	41.35%
Total	133	100.00%

Strengthen SOP Areas
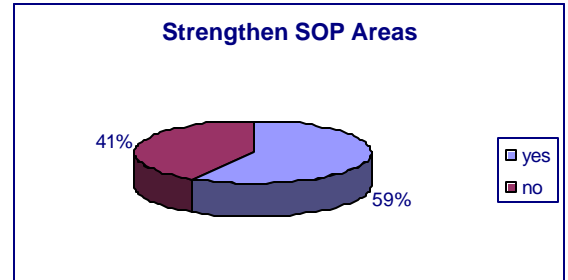
While many respondents reported they found SOP 50 50 4 to provide adequate information all the time, 78 (59%) of the 133 respondents to this question reported that particular areas of the SOP should be strengthened. Less than half, (N=55, 41%) stated that particular areas of the SOP should not be strengthened.
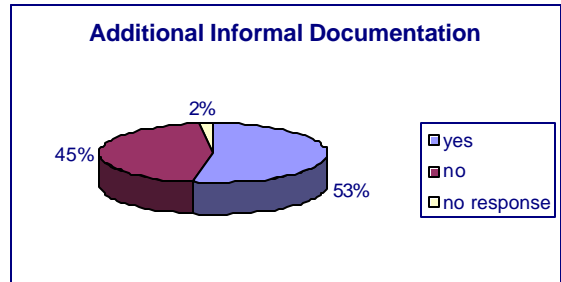
Respondents interjected a considerable number of comments regarding this question. Repairs were frequently mentioned as an area of concern. Repeatedly, loan officers asked for specific examples, overall clarification, and precise directions for determining the amount or percentage of a repair. One respondent noted "some clear statement that if the SBA has not been harmed we do not repair" is needed. While the Directors' survey indicated the usefulness of repairs; the loan officers expressed much uncertainty and often requested additional, adequate instructions regarding repairs.

Issues regarding use of proceeds and equity injection elicited many comments in Questions 16 and 17, but numerous remarks to this question included requests for additional direction regarding equity injection requirements; acceptable sources for equity injection; and adequate verification. One respondent commented: "I've many times observed a LO mentally checking cash injection off the list simply because the Lender provided some paper and labeled it cash injection. The SOP needs to provide the LO with specific information on what to look for." Conversely, one respondent commented that "less emphasis should be put on getting cash injection and use of proceeds. Most lenders don't require evidence on their own loans in their portfolio." To summarize many varied comments, one loan officer requested putting specific requirements in writing: "It seems like everyone has their own views on what can be considered to cover evidence of the injection."

Overall, many aspects of the purchase process were named – numerous respondents asked for specific guidelines, a handbook, more examples, a new chapter, a new purchase SOP. One respondent noted that SOPs are "extremely vague and poorly organized." Inadequate checklists; insufficient penalties to lenders that cause unnecessary delays; additional directions regarding verification of lender's transcript and proof of proper lien position are some of the specifics named. One loan officer asked for specific guidelines "that are relative to the audit team review findings." One respondent noted, "We need a complete rewrite."

Q. 13

Do you have any additional internal or informal documentation that provides guidance to you in your guaranty purchase process?	Number	Percentage
Yes	77	53.10%
No	65	44.83%
no response	3	2.07%
Total	145	100.00%

Additional Informal Documentation

2%
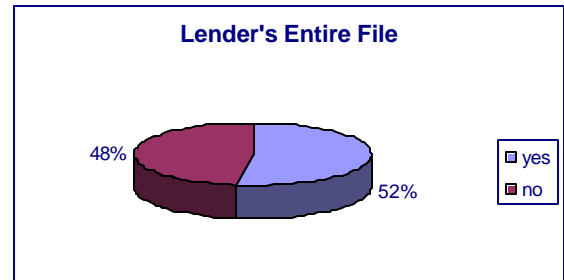45%
53%

- yes
- no
- no response

Just over half of the total respondents (N=77, 53%) reported using their own internal guidance documentation. Almost 45% (N=65) stated that they do not use their own informal documentation.

According to this survey question, there is quite a range of informal documentation being used in the field. Those who reported using additional documentation frequently mentioned either their own or their particular field office's unique checklist. Others use cuff notes, and their own or their immediate predecessor's notes. Respondents also listed the loan authorization; forms; "30 years of experience;" in house flow chart; word of mouth; as well as discussion with legal counsel. Several noted that these materials are based on the SOPs or Loan Authorizations. Still, it is clear that many field offices are using their own materials and procedures to conduct these reviews.

Q. 14

When reviewing specific cases for purchase, would it be useful for the reviewer (recommending official) to have the entire file from the lender?	Number	Percentage
Yes	74	52.11%
No	68	47.89%
Total	142	100.00%

Lender's Entire File

48%
52%

- yes
- no

Views of the 142 respondents to this question are divided almost 50-50. While just over half (N=74, 52%) stated that the entire file would be useful, just less than half (N=68, 48%) reported that the entire file would not be useful.

Comments relative to this question ranged from "it is essential," to "in some instances," to "requesting the entire file from the lender is just an extra burden for them and us." As the above table and graph indicate, opinions regarding the efficacy of having the entire file are almost evenly divided.

Q. 15

If not the entire lender file, are there other documents that would assist you in your purchase reviews?	Number	Percentage
Yes	73	56.15%
No	57	43.85%
Total	130	100.00%

Other Documents from Lender

44% 56% yes no
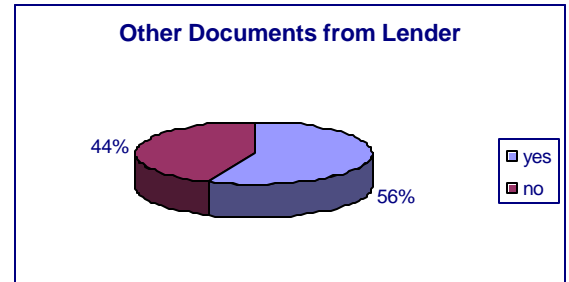
Only 130 respondents answered this question; of those who chose to respond, 73 (56%) noted that additional documents would assist their purchase reviews. Fifty seven (44%) indicated that additional documents would not be useful.

Several respondents noted that additional documents would be useful on a case by case basis. However, numerous comments naming specific documents included legal documents, financial statements, and lien searches. The list of additional helpful documentation further included internal bank documents, including lender's transcript, original credit memos, loan report, and settlement closing documents, as well as lender's field notes and correspondence.

Q. 16
What do you consider adequate evidence of use of proceeds?

Perhaps the most obvious answer to the question concerning evidence of use of proceeds would be paid invoices. More than half the respondents listed this, often in conjunction with copies of cancelled checks and additional types of proof. Others mentioned include financial statements, 1050's, disbursement sheets, UCCs, SBA form, and "verifiable documentation from the lender." While it is expected that many types of proof would be used, given the many types of loans, and the many uses of the funds allowed, it is clear that there is a lack of consistency among various field offices. Evidently, the same is true within offices – one respondent noted that "It changes week to week in my office."

Q. 17
What do you consider adequate evidence of equity injection?

The most frequently mentioned documentation included cancelled checks, with copies of paid invoices and bank statements closely following. Most respondents look for a combination of these, and many noted that bank records are important in determining whether the documentation is adequate. One respondent noted that the key question is "where is the owner getting his money?" – adding that this is not asked by most banks. Another added "lenders' methods are sorely lacking." Gift letters were mentioned, and most noted that these are indeterminate: "A gift letter is not the solution since the borrower in question still has nothing at risk." Another requires proof that the gift has been properly reported to the IRS.

Respondents indicated a lack of clarity and direction: "It depends on who you ask." Another added "it depends on what the injection was required for." Perhaps most indicative is the comment "The fact that this is a question on the survey demonstrates that SBA has not definitively determined what constitutes adequate evidence of equity injection. This is a matter of policy and should be addressed in the SOP."
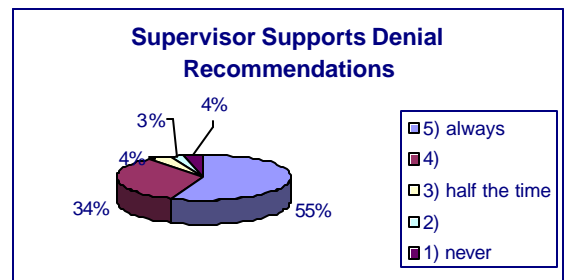
IV. Management

Questions in the Management section of the survey asked respondents to express whether they believe they are supported in their purchase decisions by their local offices as well as D.C. Headquarters. In this section, they were also asked whether review procedures vary for different lenders and if so, in what way. A significant number of respondents did not answer some of these questions. Those who did answer reported that their sense of support decreased as it moved upward through the hierarchy: over half who answered said their supervisor supports their decisions; less than 40% reported that headquarters supports their decisions. Respondents further noted that they review all lenders' loans in the same way. According to these respondents, when there are differences in treatment, it is mostly determined by a large number of repairs and defaults on the part of the lender under review.

IV. Management

Given all the changes that have occurred in recent years, we are asking the questions in this section to address your perceptions regarding whether field and headquarters management have supported your recommendations to deny a purchase.

Q. 18

Circle the selection that best describes whether your immediate supervisor supports your purchase denial recommendations.	Number	Percentage
5) always	63	55.8%
4)	38	33.6%
3) half the time	5	4.4%
2)	3	2.7%
1) never	4	3.5%
Total	113	100.0%

Supervisor Supports Denial Recommendations

Of the 113 responses to this question, almost 56% (N=63) responded that their supervisor always supports their denial recommendations. An additional 38 (34%) stated that their recommendations are supported by their supervisor more than half the time.

A significant 32 people (almost ¼ of the total respondents) did not respond to this question. One reason named by many is that they have not recommended denials, and therefore did not answer the questions in Section IV. While over half reported always being supported by their supervisors, those in the minority were quite direct in their comments. One noted that "we are strongly discouraged from recommending a denial or

even an adjustment or repair." Another adds that "We've never completely denied liability, but supervisor always supports recommendation." A third commented: "I have obtained voluntary releases and reduced guaranty percentages where warranted without objection by participant."

Q. 19

Circle the selection that best describes whether your office supports your purchase denial recommendations.	Number	Percentage
5) always	49	44.1%
4)	38	34.2%
3) half the time	14	12.6%
2)	5	4.5%
1) never	5	4.5%
Total	111	100.0%

Office Supports Denial Recommendations

- 5) always — 43%
- 4) — 34%
- 3) half the time — 13%
- 2) — 5%
- 1) never — 5%
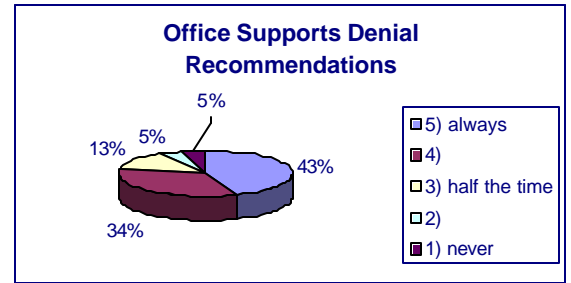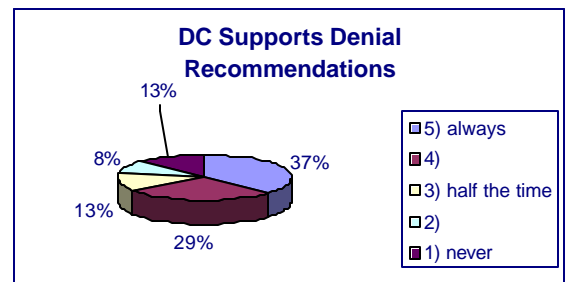
Of the 111 who responded to this question, only 44% (N=49) reported that their offices support their denial recommendations. Thus, while they reported that supervisors supported their recommendations almost 56% of the time, there is some level of divergent opinion at the local level.

As in Question 18, a significant number (almost 25%) of respondents did not answer the question. While well over half of the respondents noted that their supervisors support their decisions, the percentage of those reporting that their office agrees drops. The comments indicate that they receive voluntary releases and repairs. No one directly addressed why there is less support from the office.

Q. 20

Circle the selection that best describes whether the D.C. headquarters staff supports your purchase denial recommendations.	Number	Percentage
5) always	31	36.9%
4)	24	28.6%
3) half the time	11	13.1%
2)	7	8.3%
1) never	11	13.1%
Total	84	100.0%

DC Supports Denial Recommendations

- 5) always — 37%
- 4) — 29%
- 3) half the time — 13%
- 2) — 8%
- 1) never — 13%

Only 84 loan officer respondents answered this question. Of those who did, 37% (N=31) said that D.C. headquarters staff support their denial recommendations. A noticeable 21% (N=18) reported that their recommendations are supported less than half the time.

Significantly, 61 respondents (42% of the total respondents) chose not to reply to this question. Although most did not explain their reasons for not answering, many reported they have not recommended denials or sent any to headquarters. Some noted they get the lender to release SBA liability, "We always resolve before it goes out of the office." Others commented on a lengthy response time from headquarters: "If other types of requests are a gauge, then I would expect HQ to drag its feet;" "HQ has a denial request we submitted a year ago, and still no decision has been made." Some respondents appeared frustrated with this time lag.

Q. 21

Are there situations in your office that warrant different review procedures for different lenders?	Number	Percentage
yes	40	28.78%
no	99	71.22%
Total	139	100.00%

Different Review Procedures for Different Lenders
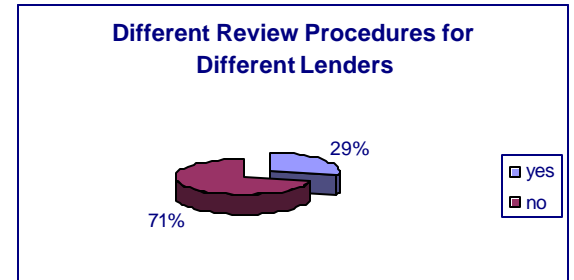
Most respondents who answered this question (N=99, 71%) reported that they use the same review procedures for all lenders. However, 29% (N=40) reported that certain situations do lead to various review procedures.

One respondent noted that the office trains the lenders who need it. Another pointed out that some programs, such as PLP loans, have very little information in the file about the borrower.

Q. 22

Do these situations involve any of the following characteristics?	Number
bank v. non-bank	10
size of lender	16
number of SBA loans	21
number of defaults	25
number of repairs	25
Other	33

Reasons for Different Review Procedures
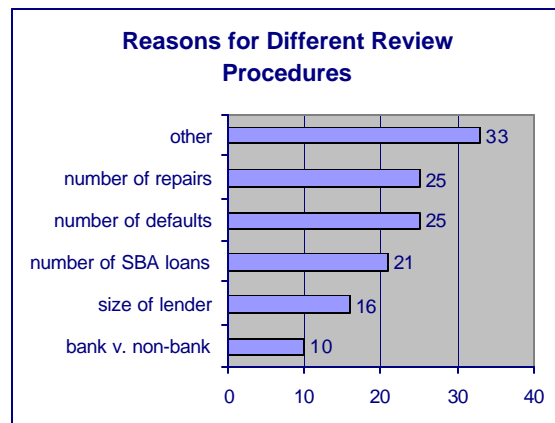
This question is a follow-up to the previous one about different review procedures. Answers indicate that the most frequent situations leading to different review procedures involve lenders who have had problems with repairs and defaults (25 each). However, the number of SBA loans is a close second (21), with fewer reporting size of lender (16) and bank or private lender (10).

The option "other" led to a number of comments. One loan officer noted that his office deals with over 500 lenders and "we treat them all the same. The smaller lenders have the most problems." In a related event, another added that rural banks have more difficulty. Out of state lenders received attention: they "follow what their local SBA office will accept no matter if it is wrong or if it is different." Another indicated "Poor experience with lenders who have purchased loan portfolios from other participants. They tend to be less cooperative and difficult to deal with."

Several commented that they do reviews on a case by case basis. One respondent noted, "The primary goal of SBA's policy is to handle each liquidation (review procedure) according to its unique circumstance and the SOP." Others commented that their offices were "more lenient on those lenders who submit large numbers of applications." Another stated, "Minor issues may be ignored in the interest of bank relations."

V. Training

These questions were asked in order to collect information regarding the various types of training that is available to those in the field. Many respondents added comments indicating a great desire for further training opportunities. Very few respondents have had formal training; most reported informal training, such as in-house instruction, as the major way they have learned to do purchase reviews.

V. Training

The questions in this section give you an opportunity to tell us what training and the type of training you have had that is specific to the guaranty review process. We also want to know of any other courses you are aware of.

Q. 23

Have you had any formal training specific to the guaranty purchase process?	Number	Percentage
Yes	27	18.75%
No	117	81.25%
Total	144	100.00%

Formal Training

19%
81%
yes
no
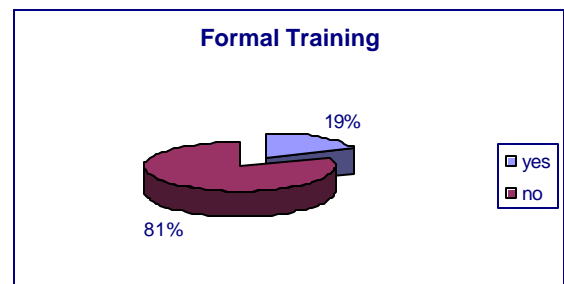
Very few (N=27, 19%) of the respondents reported having had formal training; 81% (N=117) reported they have had none. The following table lists basic information provided by the respondents about the training courses that are available to them.

Formal Training Received

Course Name	Number Reporting Attendance
Advanced Resolution of Problem Commercial Credit	12
Intermediate Commercial Credit	1
Basic Resolution of Problem Commercial Credit	18
Advanced Commercial Credit	1
Basic Commercial Credit Analysis	2
Basic Liquidation	1
Level I Liquidation	2
Liquidation (Advanced Problem Resolution)	1
SBA Liquidation Training course	1
SBA loan liquidation NAGGL	1
Financial Analysis III	1
Guaranty Purchase	1
Interoffice Training on Purchases	2
Lender Oversight	2
SBA loan portfolio management NAGGL	1

In the table above, based on responses to this question, Basic and Advanced Resolution of Problem Commercial Credit were the most frequently named courses. Keeping in mind that only 27 of the respondents reported they had received training, these numbers emphasize that only a few have had training, and the majority of that small number have only participated in one class.

A number of respondents noted that they would like to have training. Comments ranged from indicating interest: "I wish courses were offered and made available," and "it might be very helpful to have a class;" to stronger pleas for training: "I beg for training," "I would love to attend a course," and "This should be strongly considered." Clearly, the majority who have not had training see the need for it.

Q. 24
Question 24 asked respondents to describe what other guaranty purchase review training they had received. Respondents contributed almost 130 responses. As would be expected, the most frequent answer was on-the-job or in-house training. Others relied on their many years of experience, college courses and other (government or private sector) audit experience. Some relied on the expertise of their co-workers in formal weekly meetings or review/comparison sessions with experienced personnel.

As in Question 23, numerous respondents indicated that they would like to have additional training, "I wish courses were offered and made available." Another added

that training is almost non-existent and "each office processes them differently, so lenders play off one office's policy against the other. This makes us look unprofessional." Another cautioned that NAGGL (National Association of Government Guaranteed Lenders, Inc.) sponsored training is inappropriate: "I believe it is a conflict of interest."

While several mentioned that in spite of years of experience they'd like to have training opportunities, perhaps the most resonant was a comment from a loan officer with 30 years of experience: "I think it may be helpful to have it in the future."

Q. 25
Other than those listed above in Table I, do you know of any formal training specific to guaranty purchase review?

This question was asked in order to gather information about any other training or courses that might be available. No additional courses were identified, other than a few offered by a local community college or local SBA offices.

VI. Review Process

Questions in this section were asked to probe more deeply into the issue addressed in Questions 21 and 22. That is, whether purchase requests involve different review procedures, and if so what factors determine the dissimilar action. Depending on the type of loan, from 37% - 44% reported they consider all items. Respondents who did not consider all items, consistently omit creditworthiness and repayment ability from their reviews.

VI. Review Process

The questions in this section will tell us more about the review process that is used in your office.

Q. 26, Q. 27, Q. 28

To clarify the reporting in this section, please note that in Questions 26-28, loan officer respondents were asked to check which of the following factors (listed below) they do NOT consider when conducting reviews for particular types of loans.

Factors NOT Considered in Purchase Reviews:

*repayment ability	*creditworthiness
*equity injection	*conflict of interest
*use of proceeds	*eligibility
*collateral missing	*IRS verification
*collateral not controlled	*collateral insufficient
*adverse conditions between approval & disbursement	*standby agreement
*adverse conditions after disbursement	*other

All Items ARE Considered During Purchase Reviews

Some respondents to Questions 26, 27, and 28 indicated that they considered all of the listed items. The following chart indicates the number of loan officers who reported that they consider all items:

Number of Respondents who Consider ALL Items

	Number	Percent of Total Respondents (N=145)
Q. 26 PLP and LowDoc	64	44%
Q. 27 CLP	52	36%
Q. 28 Regular	54	37%

Similar to the Director's responses, the loan officers noted that PLP and LowDoc loans get the closest look when their guaranty requests are undergoing review. CLP and regular loan purchase requests receive consideration of all the items more than 1/3 of the time; 36% (N=52) for CLP and 37% (N=54).

Q. 26

Please indicate by marking which, if any, of the following are not considered for PLP and LowDoc reviews:	Number
creditworthiness	64
repayment ability	62
collateral insufficient	50
eligibility	33
other	17
IRS verification	15
adverse conditions after final disbursement	13
adverse conditions between approval and final disbursement	9
conflict of interest	9
collateral not controlled	3
equity injection	2
standby agreement	2
use of proceeds	1

Items not Considered for PLP and LowDoc Reviews

Category	Value
use of proceeds	1
standby agreement	2
equity injection	2
collateral not controlled	3
conflict of interest	9
adverse conditions between ...	9
adverse conditions after final...	13
IRS verification	15
other	17
eligibility	33
collateral insufficient	50
repayment ability	62
creditworthiness	64
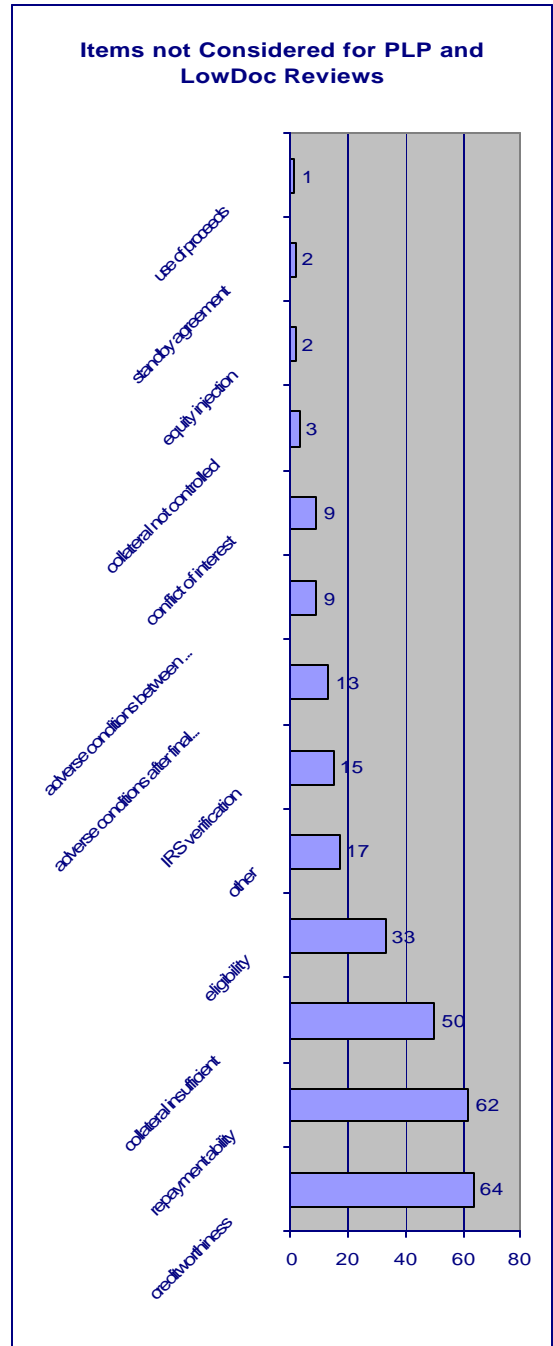
Consistent with the Directors' answers, loan officers reported that creditworthiness (N=64) and repayment ability (N=62) are most frequently <u>not</u> considered during purchase reviews for PLP and LowDoc loans.

T he following comments referred to Questions 26, 27, and 28. Several respondents noted that at the point of review, SBA cannot question lender decisions or underwriting on PLP loans: "Our review has nothing to do with lender approval of loan." Another noted that early default or a flagged loan may be an exception. Collateral value can also be a cause for consideration. Also included is the reminder that non-PLP loans have already been reviewed by SBA, "and the purchase process is not a tool designed to revisit or audit SBA decisions."

Others added that in most cases, LowDoc loans have already undergone review, but in some instances, there is a discrepancy between information originally submitted and that submitted for purchase. In these situations "the discrepancy may become a purchase issue." Not all are happy with the status quo: "If it were (sic) up to me, and it is not, I would not grant PLP lenders total authority on these issues. Abuse exists."

As reported earlier, some respondents do consider all the listed factors. One insisted that all reviews are treated the same. Another asked, "Why would any of these not be considered?"

Q. 27

Please indicate by marking which, if any, of the following are not considered for CLP reviews:	Number
Creditworthiness	75
repayment ability	75
collateral insufficient	59
Eligibility	49
IRS verification	17
adverse conditions between approval and final disbursement	14
Other	13
conflict of interest	12
adverse conditions after final disbursement	10
collateral not controlled	3
standby agreement	2
use of proceeds	2
equity injection	1

Items not Considered for CLP Loan Reviews
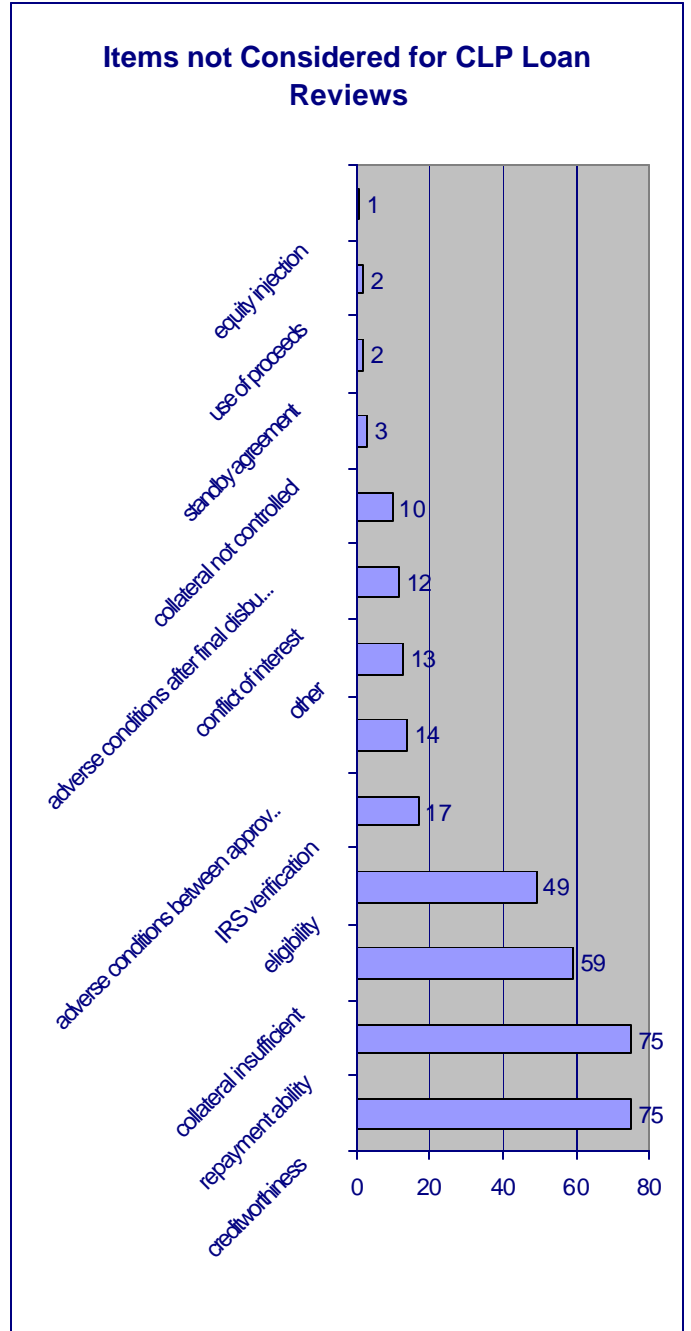
As in Question 26, above, creditworthiness (N=75) and repayment ability (N=75) were most frequently named as <u>not</u> considered for CLP purchase request reviews.

Many respondents who commented on this question remarked that SBA has already approved the credit decisions. Comments such as: "I look at these areas only if subsequent events after loan approval indicate SBA was possibly misinformed," or "Items should have been considered by finance division at inception" are indicative. Again, others pointed out that when documentation presented by the bank contradicts the original information, "the discrepancy may become a purchase issue."

Q. 28

Please indicate by marking which, if any, of the following are not considered for regular loan reviews:	Number
creditworthiness	75
repayment ability	75
collateral insufficient	59
eligibility	52
IRS verification	16
conflict of interest	13
adverse conditions after final disbursement	13
adverse conditions between approval and final disbursement	10
other	10
collateral not controlled	3
standby agreement	2
use of proceeds	2
equity injection	1
collateral missing	1

Items not Considered for Regular Loans
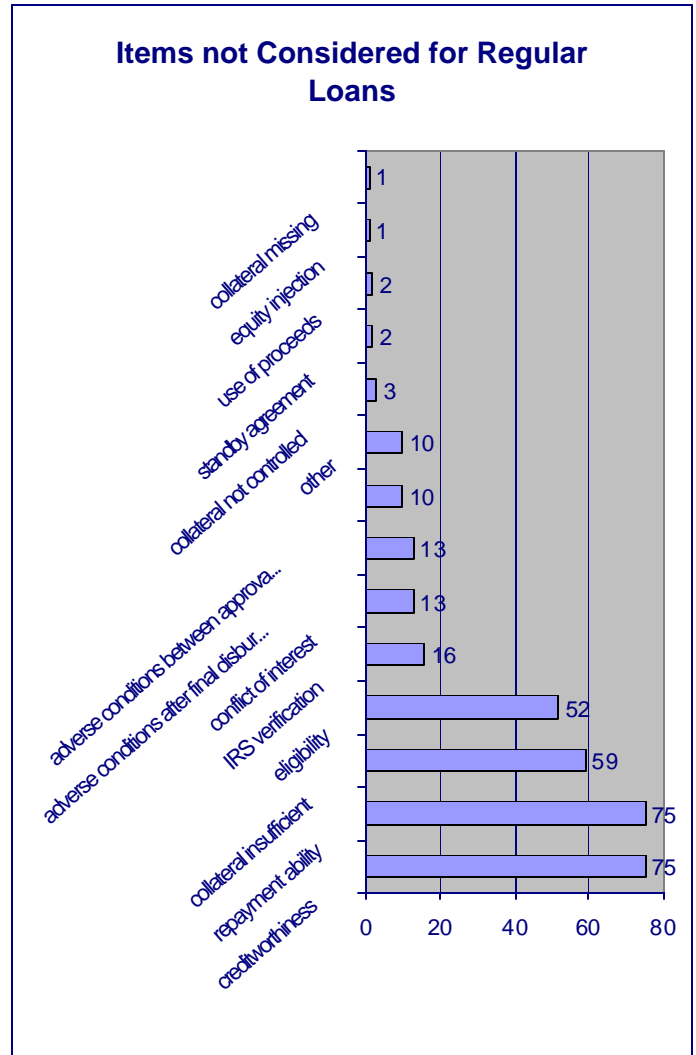
Again, the most frequently mentioned issues <u>not</u> considered for regular loan reviews are creditworthiness (N=75) and repayment ability (N=75).

As indicated in the remarks following Table 26, most comments refer to the fact that these loans have already been approved by the SBA at some level. Again, the exceptions include whether "subsequent events after loan approval indicate SBA was possibly

misinformed," or "occasions whereby the documentation presented by the bank contradicts the information originally submitted and reviewed by SBA officials."

Again, not all loan officers agree with this policy: "Management supported by legal will not battle issues if bank will not agree with the repair. This leads to substantial reduction in recommended repair amount. . ."

VII. Risk Assessment

The following questions were asked to determine the level of repairs and denials that are recommended. Results indicate that most do not recommend denials or repairs. Of the few who were willing to answer the questions, most indicated that they are supported in those decisions, locally and by headquarters.

VII. Risk Assessment

The questions in this section address whether you have ever made a recommendation to deny or repair a guaranty purchase request and if so, your perceptions about how such a recommendation might be received.

Q. 29

Have you ever made a recommendation to deny a guarantee?	Number	Percentage
yes	69	48.25%
no	74	51.75%
Total	143	100.00%

Recommendation to Deny

48% yes
52% no
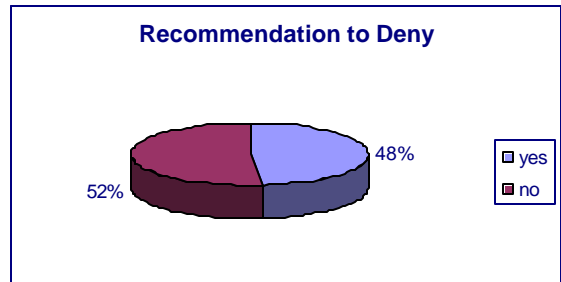
Just over half (N=74, 52%) of the respondents reported that they have never made a denial recommendation. This partially explains why so few respondents answered the following Questions 30 – 32. However, 69 (48%) responded that they have made denial recommendations, and they answered those questions as shown below.

Respondents who commented on this question report that they have obtained voluntary guaranty releases from the lenders and so it has been unnecessary to recommend denials.

Q. 30

If yes to question 29, over the past 3 years, how many denials have you sent to D.C. Headquarters	Number	Percentage
20 denials	1	1.5%
10 denials	1	1.5%
4 denials	1	1.5%
3 denials	3	4.6%
2 denials	12	18.5%
1 denial	14	21.5%
0 denials	33	50.8%
Total	65	100.0%

Number of Denials Sent to DC
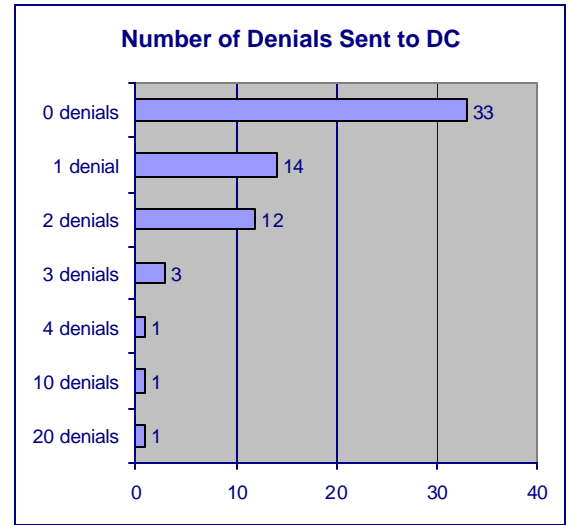
Of the loan officers who reported sending denial recommendations to D.C., just over half (N=33, 51%) have not sent a denial within the past 3 years. Most (N=26, 40%) of the respondents who had submitted a denial within the past 3 years had sent in only 1 or 2.

One respondent noted that their office tries to avoid sending denial recommendations to headquarters "because of the time frame." Others echoed the comments to Question 29 in that they obtain voluntary releases and/or reduced guaranty percentages where warranted "without objection by participant."

Q. 31

If yes to question 29, was your recommendation to deny supported by your Director?	Number	Percentage
yes	50	90.91%
no	5	9.09%
Total	55	100.00%

Recommendation to Deny Supported by Director
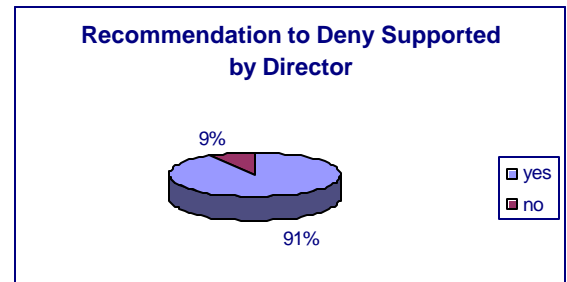
Of the 69 who checked that they had submitted denial recommendations, only 55 answered this question. The majority (N=50, 91%) reported that their recommendations to D.C. are supported by their Director. Less than 10% (N=5) reported no support from their Director.

While a few respondents noted that their first denial recommendations are pending, others stated that they obtain voluntary releases. However, some comments indicate uncertainty: "my immediate supervisor has discouraged me from making a denial recommendation based on underwriting deficiencies . . . this position is not shared by others in management here. Thus, I am caught in the middle and it is most

uncomfortable, often resulting in lectures about not being a 'team player' and not 'thinking outside the box.'" Almost 20% of those who had recommended denial chose not to answer this question.

Q. 32

If yes to question 29, was your recommendation to deny supported by the Office of Financial Assistance?	Number	Percentage
Yes	24	63.16%
No	14	36.84%
Total	38	100.00%

Recommendation to Deny Supported by OFA

37%
63%
yes
no
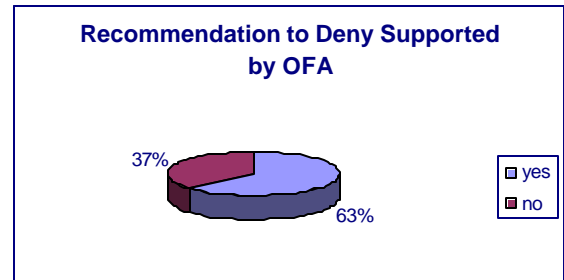
Of the 69 who reported in Question 29 that they had sent in a denial recommendation, only 38 respondents answered this question. Of that 38, 24 (63%) indicated support from OFA (Office of Financial Assistance); 14 (37%) reported their recommendations were not supported by OFA.

This low response rate calls for caution in interpretation. Less than ½ of the eligible respondents answered. Considering the low response rate to this question, this may not be a ringing endorsement for support from headquarters. In any event, this reluctance to answer, as well as the comments, indicates that at least to some extent, there is a sense in the field that denial decisions will not be supported.

A number of comments point out that they are waiting on answers from headquarters: "It has been in Washington for over a year with no response," and "For a different amount and took 23 months to resolve." These and other comments may signal that some are reluctant to send in denials. It appears that the solution for many of our respondents is to get the bank to cancel the guaranty or accept repair at the local level.

Q. 33

How often do you recommend a repair to a guaranty purchase request?	Number	Percentage
5) always	0	0.0%
4)	6	4.3%
3) half the time	28	19.9%
2)	95	67.4%
1) never	12	8.5%
Total	141	100.0%

Repair Recommendation Frequency

- 5) always
- 4)
- 3) half the time
- 2)
- 1) never
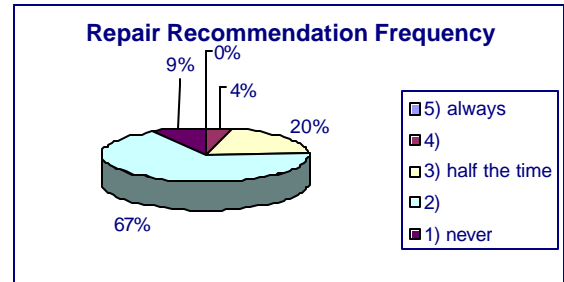
A majority of loan officers (N=107, 76%) reported that they recommend repairs less than half the time. Only 24% (N=34) reported recommending repairs half or more of the time. This is of some concern, given that the Directors, in their survey, reported that repairs are a more useful way of dealing with purchase issues.

One respondent observed that the incidence of recommending repairs and denials, as well as releases of liability "is up dramatically as a result of the PLP program."

Q. 34

Was your recommendation to repair supported by your Director?	Number	Percentage
Yes	111	94.07%
No	7	5.93%
Total	118	100.00%

Recommendation to Repair Supported by Director

- yes
- no
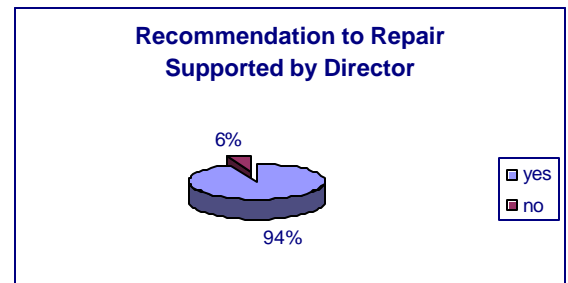
Twenty seven respondents did not answer this question. Of those who did, a significant majority (N=111, 94%) reported their repair recommendations are supported by their Director. Only 7 (6%) reported their recommendations are not supported by their director. This is consistent with, and somewhat stronger than, indications of Directors' support of denial decisions.

A number of respondents indicated that the Directors do not get involved. Others added caveats such as: "With bank agreement," or "Legal takes it further if need be."

VIII. Monitoring

SBA utilizes a Guaranty Repair Tracking System to indicate, or flag, loans with potential problems. These questions were included to determine how extensively this system is being utilized. Respondents indicated that most have reviewed flagged loans; they do query for flags; and have not been influenced by the flags.

VIII. Monitoring

These questions address flagged loans. By flagging, we mean those loans which, as a result of reviews, investigations, and audits, are identified in SBA information systems as problematic. We want to learn how flagging impacts your purchase recommendations.

Q.35

Do you query SBA information systems to see if a loan under review is flagged as problematic?	Number	Percentage
Yes	84	60.43%
No	55	39.57%
Total	139	100.00%

Query of SBA Information Systems
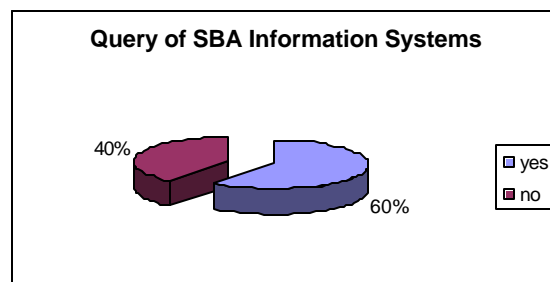
A majority of the loan officer respondents (N=84, 60%) reported that they do query for flagged loans. However, a significant minority, 40% (N=55), stated that they do not.

Some respondents reported that they flag loans if a problem exists; one said, "Not aware of any such system." Another stressed that "Flags should show in LLTS system as well as DCLS since DCLS is in very limited use. Almost all guaranty purchases happen after L&D transfer." Several indicated that they place flags in the system. According to Procedural Notice 5000-700, "Loan problems may be discovered any time during the life of a loan . . ." – answers to this question indicate that a significant minority may not be aware of, or properly utilize, this system.

Q. 36.

Have you ever reviewed a loan that was flagged?	Number	Percentage
yes	71	52.99%
no	63	47.01%
Total	134	100.00%

Review Flagged Loans
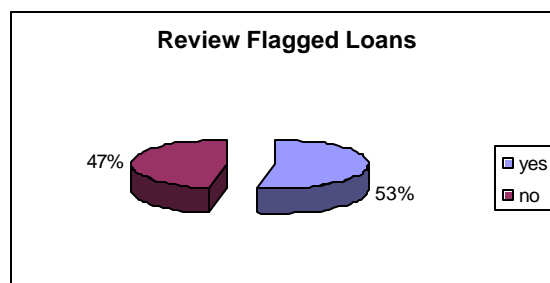
Just over half (N=71, 53%) of the loan officers reported that they have reviewed flagged loans; 47% (N=63) reported that they have not done so. Again, a significant minority of respondents seem unaware of how to fully utilize this system. Comments such as "have never seen one," or "we do not flag loans in SBA information systems" point out the

need for further informing or instructing the field staff about fully utilizing the Guaranty Repair Tracking System.
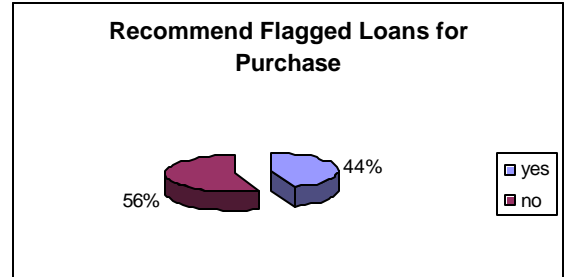
Q. 37.

Have you ever recommended purchasing a loan that was flagged for potential purchase issues?	Number	Percentage
yes	58	43.94%
No	74	56.06%
Total	132	100.00%

A majority of the respondents (N=74, 56%) reported that they have not recommended purchasing a flagged loan; 44% (N=58) reported they have. One respondent commented they usually recommend repairs, or the lender will voluntarily terminate the guaranty.

Q. 38.

If yes to Question 37, for the most recent flagged loan you reviewed, what was the action taken?	Number	Percentage
a) approval	17	30.4%
b) withdrawal	0	0.0%
c) repair	39	69.6%
d) denial	0	0.0%
Total	56	100.0%
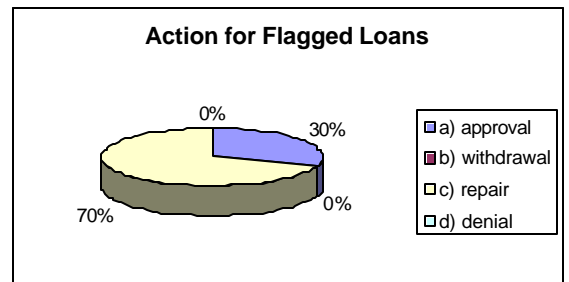
Only 56 respondents answered this question. Of that small number, most (N=39, 70%) had recommended repairs for recently reviewed flagged loans. Seventeen (30%) had approved the request. One commented that it would depend on who flagged the loan; others reported the case was pending.

Q. 39

If yes to Question 37, was the recommendation influenced by the flag?	Number	Percentage
Yes	27	48.2%
No	29	51.8%
Total	56	100.0%

Recommendation Influenced by Flag
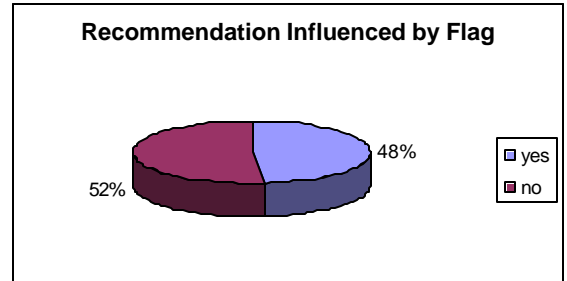
According to the 56 respondents to this question, flagging influences about half the recommendations. Just less than half (N=27, 48%) reported that the flag did influence their recommendation; just over half (N=29, 52%) stated that the flag did not influence their recommendation.

Again, a respondent noted that it would depend on who had flagged the loan; others had recommended repairs, but not because of the flag.

Q. 40

Respondents who answered yes to Question 37 (which asked about flagged loans) were asked to explain how the flag influences their recommendations. A number of respondents indicated that loans result in a closer review: "by flag account, we know to ask for additional information and review that with the total purchase package," or "flags indicate close scrutiny is required." Others used the qualification that "if the flag was put on by a district office employee, it would have a great deal of influence; if it was put on by someone in response to a PLP audit, very little influence…"

While most consider flagging to be useful, the system is not a simple solution: "some flags (i.e., failure to take additional collateral) are judgment calls and not easy to substantiate as clear cut negligence;" "the flag, while bringing attention to a specific loan, brings more attention to the practices of the lender and more awareness of all their loans."

While others remarked that flags have a high influence, one respondent noted that flags do not influence the recommendation; rather "I just use them to identify a potential problem and then make a decision based upon the facts." Again, cause for concern is raised when considering such comments as: "What is 'flagged for potential repair issues;'" and "Who does the 'flagging?'"

Q. 41.

If yes to Question 37, concerning flagged loans, did you obtain a copy of the report that led to the flag?	Number	Percentage
yes	31	67.4%
No	15	32.6%
Total	46	100.0%

Obtained Flag Report
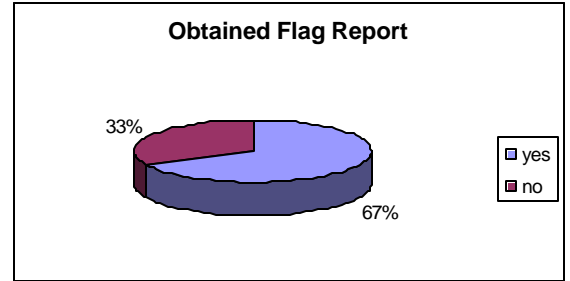
Only 46 respondents replied to this question. Just over two thirds (N=31, 67%) answered that they did obtain a copy of the report that led to the flag; the remainder (N=15, 33%) did not.

Very few comments were made, but, yet again, there is cause for concern about implementing the flagging system: "I wasn't aware a report was available. Why isn't this report put in file or sent to district office servicing the loan?"

Q. 42.

If yes to Question 37, did you find the report helpful?	Number	Percentage
Yes	29	80.6%
No	7	19.4%
Total	36	100.0%
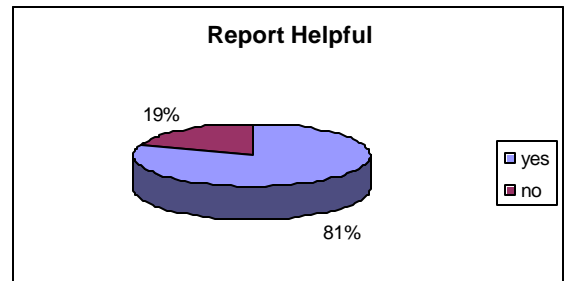
Report Helpful

Of the very small number (36) of loan officers who responded to this question; 81% (N=29) did find the report helpful; the remaining 7 (19%) did not find the report helpful.

From the very small number who did respond, comments ranged across the spectrum. While some asked for more clear directions in how to negotiate a repair, there was also a suggestion to centralize and contract out the purchase activity. Others indicated the flags are more or less helpful but that most of the time, "the problem would have surfaced during the purchase review." Additional loan officers noted that they are the ones who do the flagging. One respondent used this context to call for centralizing SBA purchase activity.

IX. Communications

This set of questions was asked to determine whether, and how, decision making information is shared among and between field offices. Most respondents believe such sharing would be helpful, but are not sure it is being done at this time. Further, for those who did report such information sharing goes on, they noted that informal interactions are the major means of connection.

IX. Communications

The questions in this section concern sharing of information among field offices. By information, we mean standards for decision-making including facts about how and why recommendations were made given a certain set of circumstances.
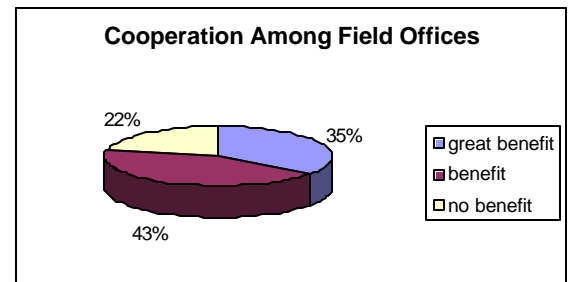
Q. 43.

Do you believe that some sort of coordination of guaranteed purchase review decisions among all Field Offices would benefit your decision making process?	Number	Percentage
great benefit	49	35.0%
Benefit	60	42.9%
No benefit	31	22.1%
Total	140	100.0%

Cooperation Among Field Offices

22%   35%
43%

- great benefit
- benefit
- no benefit

More than three fourths (N=109, 78%) of the total respondents believed that coordination of information regarding purchase decisions would be beneficial. Just over 22% (N=31) replied that there would be no benefit to such coordination.

Several respondents noted that lenders who deal with multiple offices stand to be the immediate beneficiaries of this sort of shared information. Others, while pointing out the need for a more standardized review process, recognized the difficulties inherent in trying to reorganize or have the decision making standards be more consistent. One put it very succinctly: "It seems that we operate in two organizations: one run/viewed by Central Office, another at District level." Another noted that it is difficult even within regions to initiate this sort of communication sharing: "DOs are resentful and/or rebellious to change . . . HQ comes to suspect DOs are taking on policy making . . . if it were HQ heading a nation-wide overhaul, then we Field Offices would start screaming about having no say-so in the matter . . . Kind of stuck with the 'can't please all the people' adage."

Q. 44

Please rank whether you believe that information is currently shared among the various offices.	Number	Percentage
extremely confident	5	3.6%
Confident	10	7.1%
not sure	62	44.3%
Unconfident	34	24.3%
extremely unconfident	29	20.7%
Total	**140**	**100.0%**
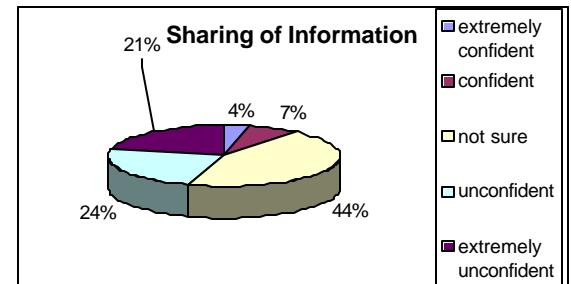
While the majority of respondents indicated in Question 43 that they believe shared information would be beneficial, only a small minority reported confidence that information is currently shared. Only 15 respondents (11%) said they are confident or extremely confident that offices share information. A large majority (N=124, 89%) reported they are not sure, unconfident, or extremely unconfident that information is currently shared among offices.

Q. 45

If you believe information is currently shared, how in your experience has this generally been done?	Number
Other	10
SOP revisions	11
meetings/training	17
Notices issued	21
Informal contacts	39
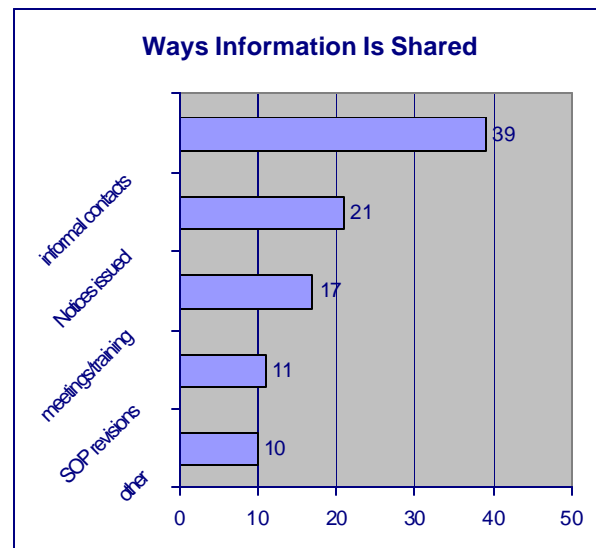
The few respondents who believe information is shared reported that informal contacts are the most frequent means of communication. "Formal notices issued" was the second most frequent method named.

Respondents contributed very direct remarks: "Field people have not had a meeting in over 5 years. If you want consistency in this area, call a meeting and tell us what you want." Others noted that an opinion digest or dial in on the intranet website would be very helpful. Others recognized the lack of and need for consistency: "I am aware of an office that performs cursory reviews and seldom if ever has a guaranty repair or denial. I am aware of other offices that attempt to repair or deny guaranties when actual harm cannot be shown."

General Comments

Q. 46
Please use the rest of this page, and/or additional paper, to make any further suggestions or comments that have occurred to you as you have completed this questionnaire.

The overall high response rate indicates a great deal of interest on the part of loan officers in the field, and many took advantage of this opportunity to contribute their ideas, observations, and suggestions. One respondent sent in 8 pages of typed, single spaced remarks, and like several others, profusely expressed gratitude for a chance to contribute: ". . . I very much appreciate OIG asking for Field Office input. I've deleted three quarters of my comments. . ." Although this was the lengthiest list of comments, other respondents also contributed some quite insightful remarks, at times using quite graphic language. Clearly, this survey struck a chord with many.

The many comments received covered a wide spectrum of aspects of the SBA. For the sake of consideration, they are broadly categorized below as relating to SBA internal issues; external factors; and policy suggestions. A summary of these ideas follows.

SBA Internal Issues
The SBA internal issues mentioned by respondents include training for SBA loan officers and lenders as well as the need for better reporting.

Although an entire section of the survey was devoted to training, a number of loan officers further remarked on the need for, as well as the importance and inadequacy of, current training opportunities available to them. Respondents stated that there were too few opportunities; that most of what is available is inadequate; and that everyone in the office should be trained. Others added that training should be coordinated; reviewers should specialize according to the type of loan; and the employees should be certified after receiving instruction. One noted, "If the D.C. staff leads training, it should be done by the OIG, not headquarters staff."

Several also commented that lenders need ongoing, adequate training. While some noted the existence of NAGGL training opportunities, there were remarks both favorable: "From what I have heard NAGGL provides good training," as well as unfavorable: "It is questionable if they adequately address repairs." One stated that it was inappropriate for NAGGL to provide training to SBA employees. Most included arguments that support their requests: "I believe that many problems and negative events that may occur in a region or in the Agency are a consequence of the lack of formal training and guidance." One respondent argued that "we all need more and more training – there is no substitute for the professional judgment of trained, experienced people."

Another suggestion was a request for better reporting. Several noticed the inadequacy of databases that are currently utilized. One respondent offered a suggestion for "An Access-based purchase system for reporting detailed review results. . . If such a system is

implemented, it should NOT be based on the existing outdated SBA accounting system (far too difficult to use, no query capabilities) and would be a much better way of tracking repairs, delayed purchase submission, and documentation issues for individual lenders."

External Issues
Lenders and NAGGL were additional objects of concern. Respondents pointed out that the interests of lenders and NAGGL would likely supercede the SBA mission: "It's laughable to think they would place the interest of this Agency and, more importantly, the interest of the small business concern and/or borrower over and above their own interest/profit margins."

Others pointed out the problematic lenders. These include new lenders, those that are small or located in rural settings, non-banks, and out of state PLPs. The lenders' own internal issues, including rapid turnover, according to respondents, account for many of the difficulties SBA loan officers face in conducting timely, appropriate reviews. One suggested revamping the PLP review process because it is too compliance oriented and gives the impression "that SBA is more concerned with form than substance. Consider putting more 'teeth' in our reviews."

Policy Issues
A number of respondents' suggestions, comments and observations relate to SBA policies. One area that received a great deal of attention is that of centralizing the purchase process. There were comments supporting: "Why not centralize;" "It would ensure consistency and uniformity" and opposing the idea: "It will become a rubber stamp;" "Will cause SBA to lose a point of check and balance." Quite interesting were the suggestions that centralization take place on a state or regional basis: "Try it as a pilot, using existing offices." The major argument offered for centralizing at a regional or state level is to accommodate the widely different state laws.

Several respondents suggested that the SBA alter its policy to require all lenders to purchase from the secondary market before requesting the guaranty: "All participants should be required to purchase the guaranty from secondary market. When SBA processes pre-purchase requests, we receive documents timely, repairs (if any) are much easier to negotiate, and denial requests receive more support from OFA." As it is now, others indicated, lenders are reluctant, and even refuse, to make these purchases.

Another respondent noted that at a different agency which involved purchasing home loans, the agency had stronger controls over the lenders and the loans were for smaller amounts which led to better, more complete requests from the lenders: "a system in place that allowed us to be, for the lack of a better word, harder on the lenders to insure that they were following the required regulations. It would not take much to get a problem lender to start doing things correctly, and it did not turn any lenders away from working with the program. However, it did make our jobs a lot easier and more efficient, and it was actually beneficial to the lenders in the end, especially when it came to the purchases. The lenders knew what was expected of them, period."

Respondents contributed a number of comments and observations about the PLP program. Some wanted a complete revamping; others stated that they had too much authority. One captured the complexity and nuance of the issues surrounding the PLP program: "It is unreasonable to give them unilateral authority to commit SBA to a guaranty and then deny the guaranty if we don't like their underwriting. Our review standard is the authorization. If the closing conformed to the authorization, they should expect to have a guaranty. If we don't like the way a PLP lender writes an authorization, we should withdraw their ability to do it. Once they have produced the authorization, we are committed, and we open a vast can of worms if we start reviewing their underwriting in a guaranty purchase review." Another added that because PLP lenders are given unilateral authority to make loans, the guaranty percentage should be reduced.

Several noted the need for more standardization and uniformity in the purchase process. There are currently few guidelines regarding how to assess repairs; or document adequate proof of equity injection; too many different checklists which leads to lender confusion; and Loan Authorizations need to be streamlined: "make the rules consistent." While "a cookie-cutter approach won't work" and "nitpicking should be avoided," the rules need to be clear and concise, according to loan officer respondents. "The 'may and should' language must be changed to 'must,' leaving no room for subjective assessment of a repair."

Finally, the SOPs received a great deal of comment. Many respondents find them inadequate and unclear: "The SOP is not clear as to how in depth the review should be" represents many comments and pleas for improved SOPs. While one respondent noted that "the reality is that you couldn't write an SOP large enough to cover every possible controversy that can come up on a guaranty purchase," others insisted that "the SOP for purchases should be completely rewritten to make it clear and concise."

Respondents found the SOPs to be subjective: "The SOP is not definite on when to assess a repair. Guidelines are there, but assessing the damage and a corresponding repair is subjective," and uncertain: "The SOP 50 51 2 (a) (actually all of them but we'll start with this one) allows DOs way too much room to reach very different points of view. This adds to the frustration, for both SBA and Lenders, that Field Offices have so many different practices." This subjectivity and uncertainty lead to inconsistency: "Under SOP 50-50-4 Ch 10, page 1, almost every loan could be denied, but obviously we don't want that. We are not consistent in this office in our approach to repairs." The result of this, based on respondents' comments, is frustration on the part of those in the field doing purchase reviews. They clearly believed they could do a better job with more precise SOPs.

Appendix to Loan Officers' Survey Responses

Loan Officers' Cover Letter

April 26, 2002

Title FName LName
Job Title
Company
Address
City state zip

Dear Mr/Ms:

You have been selected to participate in a survey. As you may be aware, the Office of Inspector General is performing an audit of SBA's guaranty purchase process. We have created a questionnaire to enable those of you in the field to directly participate in our review process. The purpose of this questionnaire is to gain information in order to improve the guarantee purchase process. As a person directly involved in the purchase process, your contribution is valuable.

Our pilot showed that it takes approximately 30 - 45 minutes to complete the form. Although it is not mandatory for you to complete the survey, our results will be much better with full participation.

We also want to assure you that we are making every effort to ensure your answers remain anonymous. You will notice a hand written number in the top left-hand corner of the return envelope. We will use this number only to track who has and has not responded, so that we can make follow up reminders. Once the response period is completed, the numbers and identifying information will not be retained.

If you have any questions or comments about the survey or the guarantee purchase process, please call Laura Makray (202.205.3178). Detailed directions concerning how to indicate your responses are on the first page of the form. Also, each major section begins with information and instructions to help you better answer the questions.

Please send us your reply by May 17, 2002. We greatly appreciate your efforts in replying to the survey, and thank you in advance for your cooperation.

Sincerely,

Robert G. Seabrooks
Assistant Inspector General for Auditing

Encl. 8 page survey

Loan Officers' Guaranty Purchase Survey

This survey contains questions about the guaranty purchase process. Please answer each question carefully. Most of the questions are multiple choice or yes/no. For each of these, please checkmark the line corresponding with the most accurate answer.

For some questions, you are asked to describe or discuss your answer. If we have not provided enough space for you, please use a blank sheet of paper, and be sure to indicate which question you are responding to. _____

I. Time/Workload

In questions 1-7, we ask about your workload, as well as that of your office.

1) On average, how many purchase reviews do you complete per week?
_____ a) 0 - 3
_____ b) 4 - 10
_____ c) 11 - 15
_____ d) 16 or more

2) On average, how many purchase requests does your office receive per week?
_____ a) 0 - 3
_____ b) 4 - 10
_____ c) 11 - 15
_____ d) 16 - 20
_____ e) 21 or more

3) Are you given adequate time to do a thorough review of each guaranty request that is assigned to you? (Please indicate from 1 to 5 below, 5 is always, 1 is never)
_____ 5) always
_____ 4)
_____ 3) half the time
_____ 2)
_____ 1) never

4) On average, what is the length of time from when you first receive an assignment to review a purchase request and the time you begin your work on that case?
_____ a) less than a day
_____ b) 1 day to less than 1 week
_____ c) 1 week to less than 1 month
_____ d) 1 month to less than 3 months
_____ e) 3 months or more (write in the estimated length of time: _____)
_____ f) unsure

5) Indicate the length of time between when you first receive an assignment to review a purchase request and the time it is completed.
_____ a) less than a day
_____ b)1 day to less than 1 week
_____ c) 1 week to less than 1 month
_____ d) 1 month to less than 3 months
_____ e) 3 months or more than (write in the estimated length of time:
_____)
_____ f) unsure

6) How frequently do you have to ask the lender for additional information? (Please indicate from 1 to 5 below, 5 is always, 1 is never)
_____ 5) always
_____ 4)
_____ 3) half the time
_____ 2)
_____ 1) never

7) Are all loans, (regular, PLP, CLP) reviewed using the same criteria?
_____ a) yes
_____ b) no (if no, please explain below)
_____
_____
_____
_____
_____
_____
_____
_____
_____

II. Individual

In questions 8-11, we ask for information that will tell us about your experience in performing guaranty purchase reviews.

8) In the last 12 months were you the primary reviewer on a guaranty purchase request?

_____ a) yes
_____ b) no

9) How long have you been doing guaranty purchase reviews?

_____ a) less than 1 year
_____ b) 1 year to 3 years
_____ c) more than 3 years to 5 years
_____ d) 5 years or more

10) On an average day, how do you spend your time?

___ a) 100% on guaranty purchase reviews
___ b) 75% on guaranty purchase reviews
___ c) 50% on guaranty purchase reviews
___ d) 25% on guaranty purchase reviews
___ e) less than 25%

11) I am given enough time to thoroughly review all guaranty requests that are assigned to me. (Please indicate from 1 to 5 below, 5 is always, 1 is never)

_____ 5) always
_____ 4)
_____ 3) half the time
_____ 2)
_____ 1) never

III. Documentation

Questions 12 – 17 are designed to tell us whether you find the documentation which guides the guaranty review process adequate. We also want to know if you have other documentation to guide your review recommendations.

12) Does SOP 50 50 4 provide enough information for you to make confident determinations about guarantee purchase recommendations? (Please indicate from 1 to 5 below, 5 is always, 1 is never)

_____ 5) always
_____ 4)
_____ 3) half the time
_____ 2)
_____ 1) never

12 a) Are there particular areas of the SOP relevant to guaranty purchase that you believe should be strengthened?

_____ a) yes (if yes, please identify in the space provided below)
_____ b) no

Please identify here. Tell us the page number and how it could be strengthened, or what the weaknesses are:

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

13) Do you have any additional internal or informal documentation that provides guidance to you in your guaranty purchase process?

_____ a) yes (if yes, please describe below)
_____ b) no

Please describe (e.g., cuff notes passed on from other reviewers; your own checklist; training course materials). Be as specific as possible.

_____

_____

_____

_____

_____

14) When reviewing specific cases for purchase, would it be useful for the reviewer (recommending official) to have the entire file from the lender?

_____ a) yes
_____ b) no

15) If not the entire lender file, are there other documents that would assist you in your purchase reviews?

        _____ a) yes
        _____ b) no

If yes, please list here:

_____

_____

_____

_____

_____

_____

_____

16) What do you consider adequate evidence of use of proceeds?

_____

_____

_____

_____

_____

_____

_____

_____

_____

17) What do you consider adequate evidence of equity injection?

_____

_____

_____

_____

_____

_____

_____

_____

_____

IV. Management

    Given all the changes that have occurred in recent years, we are asking the questions in this section to address your perceptions regarding whether field and headquarters management have supported your recommendations to deny a purchase.

18) Circle the selection that best describes whether your immediate supervisor supports your purchase denial recommendations. (Please indicate from 1 to 5 below, 5 is always, 1 is never)

        _____ 5) always
        _____ 4)
        _____ 3) half the time
        _____ 2)
        _____ 1) never

19) Circle the selection that best describes whether your office supports your purchase denial recommendations. (Please indicate from 1 to 5 below, 5 is always, 1 is never)

        _____ 5) always
        _____ 4)
        _____ 3) half the time
        _____ 2)
        _____ 1) never

20) Circle the selection that best describes whether the D.C. headquarters staff supports your purchase denial recommendations. (Please indicate from 1 to 5 below, 5 is always, 1 is never)

        _____ 5) always
        _____ 4)
        _____ 3) half the time
        _____ 2)
        _____ 1) never

21) Are there situations in your office that warrant different review procedures for different lenders?

        _____ a) yes
        _____ b) no

22) Do these situations involve any of the following characteristics? (Check all that apply)

_____ size of lender
_____ bank v. non-bank lender
_____ number of SBA loans processed by lender
_____ number of defaults by lender
_____ number of repairs by lender
_____ other (please explain below)

_____

_____

_____

_____

_____

V. Training

The questions in this section give you an opportunity to tell us what training and the type of training you have had that is specific to the guaranty review process. We also want to know of any other courses you are aware of.

23) Have you had any formal training specific to the guaranty purchase process?

_____ a) yes (If yes, please list in Table I, below
_____ b) no

Please list and describe each course you have taken that is specific to the guaranty purchase review process in the following Table I. For each course listed, tell us the name of the course, what material was covered, and rank whether you found it beneficial to your specific task of guaranty request action. We have provided space for four courses, please list any additional information on a blank sheet of paper.

Table I, Guaranty Courses taken

Name of Course	Date (Month, Year)	Title Describe material covered	Beneficial to Guaranty Review Process (Circle one)
A.			a) very helpful b) helpful c) somewhat helpful d) unhelpful
B.			a) very helpful b) helpful c) somewhat helpful d) unhelpful
C.			a) very helpful b) helpful c) somewhat helpful d) unhelpful
D.			a) very helpful b) helpful c) somewhat helpful d) unhelpful
E.			a) very helpful b) helpful c) somewhat helpful d) unhelpful

24) What other training, specific to the guaranty purchase review process, have you had? (In-house, on the job, etc.) Please describe.

_____

_____

_____

_____

25) Other than those listed above in Table I, do you know of any formal training specific to guaranty purchase review?

_____ a) yes (If yes, please list in Table II,

below)

_____ b) no

Please tell us the name of the course, the sponsor (ex. SBA, NAGGL, etc.) and location in Table 2, below. We have provided space for four courses; please list any additional information on a blank sheet of paper

Table II, Guaranty Purchase Review

Name of Course	Sponsor	Location

Questionnaire continues on next page --

VI. Review Process

The questions in this section will tell us more about the review process that is used in your office.

26) Please indicate by marking which, if any, of the following are <u>not</u> considered for <u>PLP</u> and LowDoc reviews:

_____Repayment ability
_____Equity injection
_____Use of Proceeds
_____Collateral missing
_____Collateral not controlled
_____Adverse conditions between
    approval and final disbursement
_____Adverse conditions after
    final disbursement
_____Creditworthiness
_____Conflict of interest
_____Eligibility
_____IRS verification
_____Collateral Insufficient
_____Standby Agreement
_____Other (please explain below)

_____
_____
_____
_____ All of the above factors are considered when doing a PLP or LowDoc review

27) Please indicate by marking which, if any, of the following are <u>not</u> considered for <u>CLP</u> reviews:

_____Repayment ability
_____Equity injection
_____Use of Proceeds
_____Collateral missing
_____Collateral not controlled
_____Adverse conditions between
    approval and final disbursement
_____Adverse conditions after
    final disbursement
_____Creditworthiness
_____Conflict of interest
_____Eligibility
_____IRS verification
_____Collateral Insufficient
_____Standby Agreement
_____Other (please explain below)

_____
_____
_____
_____ All of the above factors are considered when doing a CLP review

28) Please indicate by marking which, if any, of the following are <u>not</u> considered for <u>regular</u> loan reviews:

_____Repayment ability
_____Equity injection
_____Use of Proceeds
_____Collateral missing
_____Collateral not controlled
_____Adverse conditions between
    approval and final disbursement
_____Adverse conditions after
    final disbursement
_____Creditworthiness
_____Conflict of interest
_____Eligibility
_____IRS verification
_____Collateral Insufficient
_____Standby Agreement
_____Other (please explain below)

_____
_____
_____
_____ All of the above factors are considered when doing a regular review

VII. Risk Assessment

The questions in this section address whether you have ever made a recommendation to deny or repair a guaranty purchase request and if so, your perceptions about how such a recommendation might be received.

29) Have you ever made a recommendation to deny a guarantee?

_____ a) yes (If yes, answer 30-32 below)
_____ b) no (If no, leave 30-32 blank)

30) If yes to question 29, over the past 3 years, how many denials have you sent to D.C. Headquarters?

(write here: _____)

31) If yes to question 29, was your recommendation to deny supported by your Director?

_____ a) yes
_____ b) no

32) If yes to question 29, was your recommendation to deny supported by the Office of Financial Assistance?

_____ a) yes
_____ b) no

33) How often do you recommend a repair to a guaranty purchase request? (Please indicate from 1 to 5 below, 5 is always, 1 is never)

_____ 5) always
_____ 4)
_____ 3) half the time
_____ 2)
_____ 1) never

34) Was your recommendation to repair supported by your Director?

_____ a) yes
_____ b) no

VIII. Monitoring

These questions address flagged loans. By flagging, we mean those loans which, as a result of reviews, investigations, and audits, are identified in SBA information systems as problematic. We want to learn how flagging impacts your purchase recommendations.

35) Do you query SBA information systems to see if a loan under review is flagged as problematic?

_____ a) yes
_____ b) no

36) Have you ever reviewed a loan that was flagged?

_____ a) yes
_____ b) no

37) Have you ever recommended purchasing a loan that was flagged for potential purchase issues?

_____ a) yes (if yes, answer 38-42)
_____ b) no (if no, leave 38-42 blank)

38) If yes to question 37, for the most recent flagged loan you reviewed, what was the action taken?

_____ a) approval
_____ b) withdrawal
_____ c) repair
_____ d) denial

39) If yes to question 37, was the recommendation influenced by the flag?

_____ a) yes
_____ b) no

40) If yes to question 37, what influence do flags regarding potential purchase issues generally have on your recommendations to either deny or purchase a loan?

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41) If yes to question 37, concerning flagged loans, did you obtain a copy of the report that led to the flag?

_____ a) yes
_____ b) no
_____ c) not applicable

42) If yes to question 37, did you find the report helpful?

_____ a) yes
_____ b) no
_____ c) not applic able

Please add any further comments:

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IX. Communications

The questions in this section concern sharing of information among field offices. By information, we mean standards for decision-making including facts about how and why recommendations were made given a certain set of circumstances.

43) Do you believe that some sort of coordination of guaranteed purchase review decisions among all Field Offices would benefit your decision making process?

_____ a) great benefit
_____ b) benefit
_____ c) no benefit

44) Please rank whether you believe that information is currently shared among the various offices:

_____ a) extremely confident
_____ b) confident
_____ c) not sure
_____ d) unconfident
_____ e) extremely unconfident

45) If you believe information is currently shared, how in your experience has this generally been done?

_____ a) revisions of SOP
_____ b) issuance of Notices or other guidance
_____ c) meetings/training
_____ d) informal contacts among various Districts' staff
_____ e) other (please describe)

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46) Please use the rest of this page, and/or additional paper to make any further suggestions or comments that have occurred to you as you have completed this questionnaire.

Thank you for spending the time to fill out this survey. Please put the completed questionnaire in the enclosed return envelope and mail it back to us.