

**Oral Testimony of Gale B. Martin, a former Loan Officer of the U.S. Small Business Administration – Office of Disaster Assistance
As Given to the Small Business Committee of the
U.S. Senate**

July 25, 2007

“A Second Look”

I am here to hope for a million people. These are the people who were unjustly sent away without anything at all, after applying for disaster loans in the wake of hurricanes Katrina and Rita. We, this group of nine concerned loan officers and former loan officers, are especially concerned with the home applicants. They were the tragedy of the badly done processing within SBA in 2005 and 2006. These are the people that we would like to see given “*a Second Look*,” which is to say another chance for a loan.

Everyone knows the system didn’t work. The loans weren’t written. Applicants left empty handed. We have an excess of allocated funds of six billion dollars on the worst natural catastrophe the United States has ever had to mend and that didn’t make sense.

I have brought with me the written testimonies of eight other loan officers. We join together, and we all agree that we were being forced by management to cancel, decline, and withdraw applications unnecessarily and unjustly in order to make the numbers look good to the public, the press, and Congress. *We could not process each file to a correct “decision” in the amount of time we were given.* We were forced to rush files through at a ridiculously, unreasonable rate or be faced with losing our jobs immediately. The bar of daily production quotas was raised often and directly correlated with the amount of “bad press” the Agency was receiving.

Senior Loan Officers and Loan Officers alike were scrambling daily looking for any way to increase their number of completed loans, just to hold onto their jobs. It takes almost **no time** to decline, withdraw, or cancel a file and there are many, many reasons to do this. It also takes less time for a Senior Loan Officer to concur with a file that has been declined or withdrawn. This moved the entire staff’s focus and motivation to finding quick declines and withdrawals to meet their daily production quotas and *had little to do with approving files to help the applicants.*

Here is an example of an extraordinary measure used by management to push things through: We were told we could withdraw a file after three attempts to get in touch with the applicant in a 24 hour period. That meant one call in the morning, one call in the afternoon, and a third call in the afternoon of the second day, and by the close of business of that second day that file could be withdrawn. If we *did* manage to get in touch with the applicant, the applicant would then be given just 48 hours to fax in all requested documents, or again, they could be withdrawn or declined. Remember these people had been waiting in line for four to seven months just to talk to a loan officer. *This was a standard practice. This is how we were told to treat the applicants.*

There were call-out projects that called thousands of people who were given a few hours to make a final decision on their loans, or their loans would be cancelled. A lot of these people were still undecided as to whether or not they should or could rebuild. If they accepted the loan they would have to start making their agreed payments on the loan, even if the loan could not be disbursed. If the applicant asked for an extension of time, it was refused. Their only choice was to accept or to be cancelled. They were told they could come back in, if they reapplied within six months. What they *weren't* told is that they would have to go through a complete income re-qualification and the full approval process again using their most current information. Anytime a file was withdrawn, cancelled, declined, or in some cases modified, the applicant was faced with a complete re-verification. This meant all their documents had to be updated, their income had to be re-verified, new tax transcripts secured, and insurance proceeds double-checked for any additional duplication of benefits. The approval guidelines used directly after Katrina and Rita were very relaxed in comparison to what they are using now. *Many of these applicants would probably not be able to qualify for a loan again.*

The applicants were never given any information. They were rarely sent their decline letters, cancellation letters, or withdrawal letters. I used to receive phone calls from applicants three to four months after I had called them with my decision on their file. They were still waiting for a copy of their letter. Applicants only have six months to come back in. They were told to wait for their letters before they reapplied. The clock started ticking from the day their loan officer made their decision on the file. The applicant usually didn't know this. If they waited awhile before calling for a copy of their letter, they probably wouldn't have enough time to remedy the deficiencies on the file and secure any additional paperwork necessary before the clock would run out. This was another way to get rid of files.

An excellent example of the applicant not being informed of anything on their case, of being put through agony to secure a loan, and then being forced into a cancellation of that loan, is the case of Alice Bowman: I wrote a relocation loan for Alice in July of 2006 and have been following her case through since then: Alice had been waiting in line for relocation processing for over four months. Of course, she had called into customer service, but as usual, they refused to give her any information about what she would need to be processed. When I first spoke to Alice, she was horrified to find out that she needed to have a purchase contract in hand, or I would have to withdraw her file. This is the policy with relocation loans. She thought she would have some time to make her purchase, after I informed her of the amount she was eligible to borrow. – This situation was a common occurrence in the relocation department. The borrower was never informed of what was needed prior to talking to a loan officer. They would wait in line for months, just to be kicked out immediately again for not having a purchase contract. In this case, I agreed to hold on to her file because of hardship circumstances with her 94-year-old mother who was wheelchair bound. Alice hopped onto the project of looking for a house, driving from Florida to Georgia, with her 94-year-old mother in tow. Every other day she called in and informed me of her progress. Unfortunately, Alice's file had been in process for 271 days and this was at the time when the agency was being embarrassed for aged files. I was told to withdraw the file twice, and then threatened by the department head about it. Fortunately, Alice found a

home and we were able to write her loan that week. - However, that purchase didn't work, and Alice found herself on the phone with a loan officer recently, who refused to give her an extension and insisted on cancelling her loan. He said she could come back in if she reapplied within six months, but he didn't explain that she would have to re-qualify that loan. This all happened in early April, and by the end of June, she still had not received a cancellation letter. He also neglected to tell her that the clock started ticking from April. When she called in to inquire, she was then sent a letter stating that the loan was cancelled at her request. This is an example of every error that I have just tried to communicate. Very little was done well on this file, and Alice is still fighting to get her loan back.

As I explained above, we were also simply ordered to withdraw files. During the main thrust of each of the four production campaigns, we were not allowed to hold files beyond a week's time. Please bear in mind that our applicant had lost *absolutely* everything in the world. They could not give us the documentation necessary to process their files within that time period. An example was during the business loan processing campaign which ended in March, we were very behind in securing the tax transcripts for applicant's from the IRS. Up to this period, the applicant was not considered responsible for securing their own tax transcripts. We suddenly were ordered to inform our applicants that they would have to secure their own transcripts, within five days, or their files would be withdrawn. Applicants were frantically calling in, crying and begging for their files not to be withdrawn. We simply gave them a direct-line number to the IRS and suggested that they call and re-call the IRS until they found a sympathetic ear, who was willing to process their request before the deadline. For the most part, the applicants were told by the IRS that it would take up to six weeks to process their transcript requests. As a result, these files were unreasonably withdrawn.

The applicants were rarely notified of decisions made on their files. The written testimony of two reconsideration loan officers spells it out. Loan Officers would simply *lie* in the chron. comments in order to close off the file and include it on their daily production reports. Over and over again reconsideration letters would state that applicants had not been called and did not receive a letter informing them of the changes made on their files. I also witnessed this myself, while working in the legal/escrow department. If I saw that a file had been withdrawn, I made it a point to call the applicant and ask if they were aware that their file had been withdrawn. The answer was always no! I remember one poor lady was on vacation in California, she ended up having her daughter in Mississippi, break into her house to get me the documents I needed to reinstate her file, since I could only hold the file for 24 hours. Another poor women who had been withdrawn and not notified, had to exit her apartment within two weeks of my call. Her landlord had already granted her one extension and would not give her a second extension. She thought everything was in order for SBA to complete her closing in two weeks. Instead her file had been withdrawn for no apparent reason. By the way, my orders in escrow were to simply fix a legal stipulation on the withdrawal, not to reinstate the file. We did manage to save her home purchase and get her closed on time, but we had to scramble to do it.

The statement below was made by a former reconsideration loan officer. I thought it was worth including in my oral testimony:

What follows are a few examples of why fundamental change is needed at the Agency: I was told to change the dates on the DCMS system to reduce the aging time of the files. The Reconsideration Department withheld hundreds of files for two weeks that had been recommended for approval, to make the total number of files not processed a smaller number (thereby making the numbers processed look better). The head of this same department asked a new employee, "Why do you care? when a loan officer showed concern for his applicants. Another supervisor said he uses a three-minute egg timer and when it goes off, that is the maximum time that he and his group of employees were allowed to be on the telephone with any applicant. A 15 year, SBA veteran, SLO talked to his group of employees and the topic of conversation was: "How to get rid of files."

I could go on, and on, for hours here, but the truth is that only the wealthy moved through the system easily. People with credit issues, who owed the government even a little bit of money, who had lost their documents, or who just moved around, would probably not be given a loan, and if they were, they would have to fight to keep it.

In closing: It was the decision of the Agency to force files through the system at a rate that did not allow for proper processing. Their concentration was on making the numbers look good to the public and Congress at the expense of possibly over a hundred thousand applicants.