



Honoring Loan Guarantees Current Performance

June 2009

Guiding Principles

SBA is guided by three principles during the guarantee purchase process:

- **Remaining careful stewards of taxpayer money** by honoring guarantees in which the lender meets clear underwriting and recovery standards and the borrower is eligible for SBA-backed loans.
- **Extending credit to meet small business needs** by ensuring lenders experience an efficient process and by honoring guarantee purchase requests as smoothly and rapidly as possible.
- **Focusing on process improvements** that further enhance lender experience and oversight.

Recent Actions to Improve Guarantee Purchase Process

SBA has taken significant steps over the past few years to improve the guarantee purchase process experience for lenders, while becoming a better steward of taxpayer money.

- Instituted a *“ten-tab” system* that has helped ensure that lenders assemble complete guarantee purchase packages more thoroughly and accurately.
- Developed *new automated SBA purchase review* form that tracks the purchase review process automatically and expedites review steps.
- Revised and streamlined *SBA Express purchase demand kit* to aid lenders by improving SBA cycle times and reducing repairs and denials in our Express products.
- Encouraged lenders to *adopt the “best practices” of lenders with the lowest repair/ denial rates* that close and service all their loans using the “10 Tab” system and SBA Express purchase demand kit as their guide.
- *Encouraged lenders to use ETran*, SBA’s web-based means of interacting with its lending partners that relies on common data standards and predefined business rules. E-Tran *minimizes lender processing errors during loan origination and servicing* that may lead to repairs and denials.
- Developed a *comprehensive purchase processing manual*, which breaks down the review process clearly, for use by SBA financial and legal staff.

Impact of Guarantee Purchase Process Improvements

These actions have significantly improved the guarantee purchase experience for lenders.

- **SBA now honors over 95% of its guarantee requests for purchase in full.** SBA also honors over 95% of the total guarantee purchase dollars requested.
- **On average, it takes under 30 days to process complete purchase packages from lenders**, which is a significant improvement from previous SBA guarantee purchase turnaround times. If lenders submit incomplete packages or packages that require additional explanation, the processing time averages about 60 days.
- On November 1, 2007, SBA made a **‘brand promise’** to its lending partners: “Send us a fully complete package and the National Guaranty Purchase Center and we’ll notify you of your payment or a possible repair/denial in 45 days or less.” **More than 6,300 loans for almost \$1 billion have been processed since then without once missing the promise!**
- If there are deficiencies in the lender’s handling of a loan, SBA assesses repairs or denies guarantees if the error(s) **materially** affect the amount that can be recovered, or if the loan was ineligible for SBA financing.



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Future Steps to Improve Guarantee Purchase Process

SBA hopes to build upon these steps by further helping lenders avoid mistakes that delay the guarantee purchase process. SBA will:

- Continue to encourage lenders to use the 10-tab system to organize files.
- Host monthly conference calls with district office "brand managers" who assist lenders in their districts with purchase questions and preparing purchase submissions.
- Distribute a new combined matrix to assist lenders in knowing which servicing and liquidation actions require prior SBA approval and/or SBA notification.
- Provide training at lender conferences (national and regional) and with individual lenders on repair and denial problems, and how to avoid them.
- Conduct bi-weekly Herndon policy application conference calls with HQ to assure consistent application of policy in determining when repairs or denials are appropriate, with a focus on materiality.
- New review process at Herndon on problem cases involving denials or substantial repairs to attempt a final resolution before cases go to SBA HQ.

In addition, the Offices of Field Operations and Capital Access will develop a collaborative process to engage lenders on how to remedy the most common mistakes that result in denials or repairs, such as:

- Collateral/lien filing problems that result in missed recoveries.
- Liquidation deficiencies such as failure to conduct a site visit that resulted in missed recoveries.
- Unauthorized use of loan proceeds.
- Undocumented servicing actions.
- Equity injection problems for early default loans.
- Processing/closing deficiencies such as failure to verify financial information with IRS.
- SBA loan eligibility problems.

SBA hopes that as a result of its past and planned actions SBA lending programs are even more attractive to our lending partners.