



## Task 5 Report

**Task #5:** Clearly define how to manage the process, including measuring results against expectations and routine and ongoing evaluation of policies and procedures.

**Task Force Members:** John Diehl, Paul Herman, Steve Kaminski

### Executive Summary

Given the task, we have identified several measures that describe how to manage the loan closing process at TSBC. We begin with several assumptions that guided our work. We then discuss the importance of a productive closing culture that must give life to the process we seek to define. We then identify four closing performance standards and how to measure performance. These standards include a qualitative standard, a quantitative standard, a time standard and a customer service standard. We describe several management tools such as coaching calls, closing mentors, quarterly performance evaluations and periodic policy reviews. We also make additional recommendations about the process definition work in general. We consider this to be an overview of the measures management must take. Some details must be worked out in other groups. We expect management to ratify the recommendations we have made and to pursue their full implementation. The column on the left gives highlights throughout the document.

### I. Assumptions

A few key assumptions guided our deliberations about this task. We want to lay them out explicitly at the beginning of this document to give the reader an essential perspective on our work.

- A. We have chosen to focus primarily on the closing process, since that was the general direction we were given. We did comment on other parts of the process, however, where applicable. We also realize that much of what we have said here applies in principle to every part of the loan origination process. It would have been clumsy to write “sales person/closer/underwriter” throughout this document, or to discuss how some detailed points may be reworked to apply to other areas. We tried to keep the focus simple. However, we want all parts of the process to consider the spirit of what we have said here.
- B. In addition, we tried to stay away from the alphabet soup of acronyms that can clog business writing. Instead of LCO, we simply said “closer,” since a document like this can be weighty enough without having to use a decoder ring to figure out job titles. Likewise, we chose not to write he/she or his/her to indicate both genders. The reader should consider any references to gendered pronouns in this text to be random and arbitrary.
- C. We have taken the time in this document to give reasons and a context for our recommendations. We are not simply making contentions; we are making arguments. We want our reasons to be clear.
- D. We assume that we are ready for major changes. We as a group have

fallen into some bad habits. To change them, as with any bad habit, takes a healthy dose of discipline. We must climb out of the ruts we've landed in and cut new ones. That work will take energy and it may be uncomfortable, but our success depends on it. We assume we are willing to take on the work this document describes.

- E. Our task is all about communication. Listen how often this comes up when people discuss our situation. The underwriters have to communicate with the closers. The closers have to talk with the underwriters. The sales force does not give a clear picture to the customer. The closer has to hunt down a sales person to find a piece of information. The construction management firm was unclear about the services they provide. The closers aren't following stated procedures. The closers don't know what the procedures are. Over and over again, we circle back to communication.

Yet, even though we recognize the problem, we say it glibly, as if solving a communication problem is simple common sense. But if it is common sense, why do these problems keep recurring? Why is poor communication such a tough problem to solve?

The answer, in part, has to do with our perspective on communication. We, like so many corporations, have tacitly adopted some common communication myths.

1. The first myth is that communication is simply the transfer of information, just like a computer. This is part of what Theodore Roszak in 1986 called *The Cult of Information*, where we assume that human beings behave just like computers as data processing machines. The fact is, we're not machines. Our communicative behavior is much more complex. Part of that complexity is the fact that we do not respond equally to the each message, even to the same message sent at different times in a different context. If we assume, therefore, that once we have sent a message, it will obviously be correctly received, we set ourselves up for communication failures.

Communication is not about giving information. It is about exerting influence. Far from being guided by logic, it is guided by *psychologic*, to coin a phrase. The goal of communication is not simply telling, but acting, changing another person's behavior through what we say to them.

2. A second myth is a corollary to the first: if communication is information transfer, it doesn't take much active effort. We have come to regard communication as passive. We simply send our messages and let them take their course, never bothering to reinforce them or check to see if they were received. When we begin to see communication as exerting influence, we can see it is hardly a passive

matter. We have to actively attend to the messages we send. We have to be conscious of the unintentional messages we give out that may betray our unguarded intent. We begin to manage our communication strategically, making sure we make the most of the messages we send. We must overcome what George Orwell called “the half-conscious belief that language is a natural growth and not an instrument which we shape for our own purposes.”

3. A third myth comes out of the litigious world we live in. We may assume that once we have formally communicated, we have met our legal obligations to get a message across and therefore have no further obligation to communicate. If our purpose in communicating is only to meet some legal standard, this assumption would be correct. But if our purpose is to change someone’s behavior, this assumption falls far short of effective communication.

Two and a half millennia ago, Plato described three different kinds of communicators as three different kinds of lovers. The evil lover is concerned only about himself and abuses the audience to get what he wants. The neutral lover is like our legal-minded communicator; he gives the bare facts with no care for the ultimate outcome. The best communicator, Plato argues, is like the noble lover who, overcome with a divine madness, does all he can to get his message across for the sake of the audience. Giving the facts is not enough. We have to change the way people work and think.

When we begin to move beyond the myths, when we see not mere information, but influence, when we recognize the power not of logic, but psycho-logic, we then can see communication as a conscious craft, the discipline of shaping messages that change people. We can begin to see several key factors that make communication effective.

Key communication factors:

Use multiple channels and repetition.

1. Since communication is more psychological than logical, we have to account for the fact that many things may interfere with the effective reception of a message. To counter this, we should send our messages over multiple channels—written, visual, auditory, kinesthetic—to improve the chance of the whole message getting through. We should also repeat important messages, not because the audience is lazy or unmotivated, but simply because they are human and may not remember.

Pay attention by taking the time to communicate.

2. We must recognize that in itself the act of sending a message conveys a generally positive message. At the beginning of this century, researchers discovered that workers in a plant near Hawthorne, New York showed increased productivity for no other reason than the fact they were the subjects of research. This “Hawthorne Effect,” as it came to be known, teaches us that when we send a message, we are also saying that we’re paying attention, that you are important enough

for me to talk to you. On the other hand, it also explains why a lack of communication can lower morale and productivity even when there is no other problem.

Manage administrative persuaders.

3. The Hawthorne Effect also points to the fact that we communicate by far more than discreet, verbal messages. Administrative actions and nonverbal elements such as time clocks, posted policies, locked cabinets, and organizational structures all send messages. A well-defined process, clear performance standards, routine policy reviews all send strong and persuasive messages.

Use the form of a message to persuade.

4. The form of a message is an important factor in the message's success. Kenneth Burke defined form as "that which creates and satisfies appetites in the audience." Most business communication stresses information over form, but the form is often what engages the psychology of the audience best. For example, far better than random policy changes, a deliberate cycle of policy change and review creates an appetite in the closers and prepares them to receive the messages that come with policy changes.

Make messages clear to give the audience a place to hang the content.

5. We know that a message should be clear, but to be most effective in designing our messages, we have to understand how clarity works. A clear message's structure follows a pattern that the audience can recognize. They may not be immediately aware of it, but they sense the pattern and can use it to make sense out of the message. Specifically, the pattern acts like a rack or framework on which they can hang the ideas in their minds. In other words, a clear pattern helps the audience make connections and remember the message.

i. For example, the general rule for the number of random elements a human being can remember is  $7 \pm 2$  (5 to 9). However, we break that rule routinely when we teach a list of 26 arbitrary items to young children. The list is the alphabet and we teach it by creating a musical pattern to which children can connect the letters.

Notice, therefore, that clarity is not for the sake of logic, not to have a pretty outline, not to cover all the legal bases, but to make the message connectable and memorable in the minds of the audience.

ii. In a similar way, a message is clear if the ideas are clear--if they form a consistent whole. If a message contradicts itself, or if it contradicts other messages I've heard, I will probably discard it. I don't have time to make sense of it. If, on the other hand, the ideas in the message are consistent with what I've already heard, I know where to connect the ideas in my head. I can more easily make a pattern and remember the message.

Make messages clear by making them consistent.

iii. Clarity also applies to the specific words that a message uses.

Make messages clear by using clear word pictures.

Words I don't understand, or word-pictures that don't make sense to me, "fall upon the facts like soft snow, blurring the outline and covering up all the details," as George Orwell paints them. Crisp word-pictures along with relevant and real stories make messages more memorable because they give more ways to make connections.

Manage "ethos"—the audience's perception of the speaker's credibility.

6. The final key communication factor for our purposes here is the most powerful form of proof. More than logic, more than emotions, people are persuaded by the personal character, knowledge and judgment of the speaker. This potent force, called "ethos" by the Greeks, becomes a manager's principal persuasive tool. Often, people believe a message for no other reason than their trust in the speaker. Ethos is more than the facts of your reputation; it is a proof you shape and develop in the messages you send. For the measures we recommend in this document to be credible, we must:
  - i. set realistic goals
  - ii. meet the deadlines we set
  - iii. discuss problems honestly
  - iv. be fair to opposing points of view
  - v. recognize those who have helped work on the problem.
  - vi. separate causes from effect, short-term from long-term effects, hard facts from wishes or dreams, and each proposal from another.
  - vii. talk in terms of real-world problems rather than personalities or ideologies.
  - viii. provide adequate background information on controversial issues.

These points on communication are far short of a full discussion of the communication issues involved in our situation. Yet they may be too long for this document. We have included them to reveal some of the assumptions that underlie this report. What we describe here is, in effect, the outline of a persuasive campaign to change our organization.

## II. A Productive Closing Culture

The focus of our corporate efforts in the last few weeks has been a process. We are working to define it, control it, perfect it, and exploit it. We agree with these efforts. But there is more to the successful launch of a process than succinct analytical definition. Take the following story, for example, recorded by G. Vico in 1707:

The case of P. Perot is in point. He built a ship the proportions of which had been carefully calculated beforehand according to the rules of analytical geometry, expecting it to be the swiftest vessel in existence. But as soon as the ship slid from the docks into the water, it sank to the bottom of the sea and remained there as motionless as a rock.

*A process is borne of a culture that gives it life and breath and purpose. Our well-defined process ship may suffer the same fate as Mr. Perot's if we do not account for the cultural factors that keep a process afloat.*

The word "culture" is intimidating. It sounds large and unwieldy, growing up in odd places like Graceland and "The Old West," being too much to control even in a small company.

But a culture is simply a widely held, broadly-bound, shared perspective. The key here is perspective—a way of looking at things. As soon as a group of people looks at something the same way, they are sharing a perspective and are beginning their own culture. So even though culture sounds too big to handle, creating a perspective is manageable. *By emphasizing certain things and de-emphasizing others, senior management can begin to forge a shared perspective that can keep our process running right.*

We could talk a great deal about the components of a productive closing culture, but there are three elements that we want to emphasize.

A. The Closing Manager as Process Manager

1. *The closing manager must cultivate those competencies that will support a productive closing culture and sustain the closing process. These competencies include:*

- i. Knowledge of the loan closing process in particular, and the entire loan origination process in general
- ii. Effective use of knowledge and input from others
- iii. Encouraging creative and critical thinking from the closers
- iv. Promoting effective communication among closers
- v. Ability to listen effectively
- vi. Ability to organize group thinking
- vii. Ability to supervise and coach team members.
- viii. Ability to identify problems with the process, analyze and implement corrective action.

2. A person need not have already mastered these competencies to be an

The closing manager must guide the process as a coach.

effective closing manager, but should work to develop these strengths.

### B. Goal-Oriented Focus

The key element in the perspective that all closers must share is the goal or purpose of closing a loan. No one wants the closers to become experts in the process for the sake of the process alone. The process is a means to an end. We must clearly define that end.

We need a goal for closers:  
“a quality loan, quickly closed.”

1. *In general, we need a succinct statement of the closer’s goal—perhaps, “a quality loan, quickly closed.” We should then use this goal to frame the process and their approach to it.*

This kind of general goal is important because, for one thing, it is memorable and can give the closers a place to connect all the other process details they must learn. Also, it teaches the closers to focus on more than the process. In other words, if a situation arises that is not accounted for in the process, but yet could adversely affect the deal, the closer should address that situation. We want the closers to use their judgment to achieve the goal of a quality loan quickly closed—that’s where their allegiance ultimately lies, not in checking off items on a list. We want them to be more than paper shufflers; we want them to use their heads. A clear goal can help teach them.

We need a brief description of a quality loan.

2. *We also need to break down the short, general goal into a list of about 10 points that describe a quality loan. Again, this list should be memorable. It may take the form, “A quality loan is one that . . . .” It is not to be a comprehensive description of every possible credit scenario—that should be in the manual; they should know where to find it if they need it. This list of the top 10 loan quality items is a teaching tool to focus the closers on quality.*

We need to focus the entire loan production team on closeable loans.

3. *On another level, this goal-oriented focus is important for the entire loan production team, not only the closers. For example, if we emphasize quick, quality closeable loans for sales and credit also, we should be able to leverage their work to speed the closing process. We have not taught sales and credit to think in terms of a closeable deal. By giving them this perspective, we should be able to improve the closing process with little extra work from these pre-closing team members.*

### C. Open Communication

1. We have already said a great deal about the importance of open communication to the closing process. It is a theme running through many of the recommendations we make in this report. We emphasize it again here because it must be a centerpiece of the shared perspective we prescribe for a productive closing culture.

Open communication must be a centerpiece of the closing culture.

2. Both management and closers must communicate with one another

openly in an atmosphere of trust without hidden agendas. Each group must listen thoughtfully and respond reliably. This openness is an essential precursor to having clear and accurate communication about specific deals.

### III. Performance Standards

A. Perhaps the most significant tool necessary for effective management of the closing process is a clear and effective set of performance standards. On the one hand, for management and the company overall, standards are a critical objective measure of individual and group performance. Until we set and monitor standards, we cannot effectively improve the speed of the process. On the other hand, standards are equally important for the line-workers as well. They provide a clear communication of the kind of performance the company expects, and clear communication enhances productivity. In other words, the communication of clear performance standards in itself improves performance.

Four closing performance standards:

1. The quality of loans as determined in file review
2. The number of loans closed/quarter
3. The number of days to close a loan
4. Customer service

B. *Based on general industry standards and input from management and closers, we have identified four primary performance standards.* Each of these standards should be part of the quarterly performance evaluations, along with descriptions of any applicable mitigating factors. While we suggest specific performance standards where possible, we also recommend a “continuous improvement” approach to standards, setting high but reachable goals to begin this initiative, but also working to raise the standards as the process becomes more efficient.

#### 1. *Qualitative Standard: Exceptions revealed in post-closing file review*

i. From every quarter we have heard the call for reinstatement of the post-closing file review process. We can easily see the benefits such reviews provide the company: a further insurance of credit quality, an objective and regular measure of closers’ performance. However, file-review is important for the closers as well. It provides feedback; it gives them an essential orientation to assess their performance. File review takes time and ties up resources, but for the sake of the closers and the company’s credit standards, we must reinstate these reviews.

ii. The key characteristics of effective file review is that they be objective, quick, comprehensive and well-documented.

a. File reviews must be objective.

- 1) They should be based on clearly stated TSBC credit quality standards.
- 2) Furthermore, the reviewer should not be part of the closing production reporting structure.
- 3) The files reviewed should be selected by objective criteria.

Key points on file review:  
objective, quick,  
comprehensive and well  
documented.

Task Force #1 has recommended a sampling approach “with an emphasis on reviewing loans booked by Closing Associates with 1 year or less TSBC closing experience.” We concur, but would recommend that during an initial startup period (3 to 6 months), loans closed by all closers should be reviewed to determine overall closing quality. After the startup period, clear standards for selection can be established that allow for objective sampling.

- b. The file reviews should occur quickly, within 30 days of the loan closing, as Task Force #1 recommends. Construction loans may be subject to a second review once the loan is fully disbursed.
- c. File reviews should be comprehensive by their breadth and depth.
  - 1) The reviews must be broad by allowing for relevant comments from servicing and liquidation. Representatives from these departments should be able to add their comments to the review document. For example, if those that board the loans see that the system and the file do not agree on loan amount, rate, term, gty. pct, etc., and there is no documentation in the file to explain the discrepancy, this should be noted in a file review. It may be possible to the person finding this situation to create a review document to note the exception.
  - 2) The reviews must be “deep” by tracking a closer’s exceptions over time. The manager should help the closer correct any negative trends and should insure that any immediately correctable errors are addressed.
- d. To make sure that the file reviews are well documented, management should develop a standard file review form, which will then be part of Lotus Notes database.
  - 1) The reviewer will initiate the review by completing a review form on the selected loan; other parties will be able to add relevant comments.
  - 2) Once complete, closing management and the closer will be able to see the review.
  - 3) The review form should allow for some objective grading of closing quality. The closer’s qualitative assessment will be based on the average of these grades and any significant comments.

We should begin with a standard of 7.5 loans/quarter. However, we should move to a standard of 12 loans/quarter once the process is defined.

## 2. *Quantitative Standard: Loans closed per closer per quarter*

- i. A closer may produce quality work, but a closer must also close a reasonable number of loans each quarter. The accepted industry standard is 12 loans per closer per quarter. Task Force #2 found that 7.5 loans per closer per quarter may be a more reasonable

initial standard for TSBC. According to the findings of Task Force #2, there is currently no quantitative standard for individual closers other than published production goals. To meet our current production goals for 1999, each closer would need to close 15 loans per quarter.

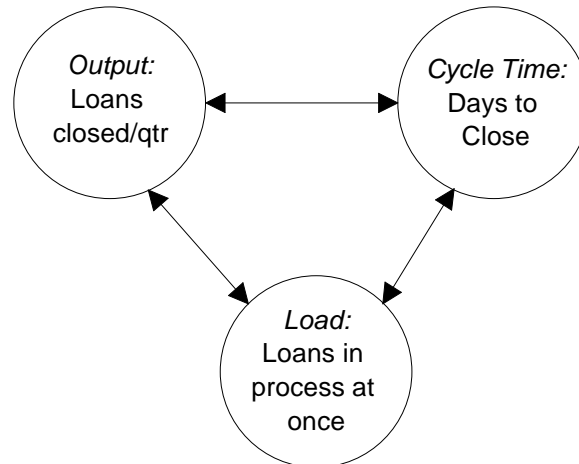
- ii. We recognize that an initial standard of 15 loans per quarter may be unrealistic. We also realize that a closer's ability to close loans quickly is affected by factors beyond the closer's control, such as having no loans available to close, uncooperative borrowers, etc. The quarterly review process should make mention of these extenuating factors.
- iii. Nevertheless, we believe that a quantitative standard must be decided upon and published to give the closers a clear picture of what we expect of them. The standard may be adjusted as we refine the closing process.
- iv. We can easily refine existing views in ELISa to display closer production per quarter.

3. *Time Standard: Average number of days to close a loan*

- i. At first, this time standard may look the same as the quantitative standard. While it is related, it is still different and in some ways secondary to the number of loans closed per quarter.
  - a. The number of loans closed per quarter is *output*. The number of days to close is *cycle time*. We often assume that the output will increase as the cycle time decreases. However, the two are only indirectly related. The variable that links the two is *load* or production capacity utilization—the number of loans a closer can work on at once (See Figure 1). If the load remains constant, then a decrease in cycle time will bring an increase in output. However, changes in load can also affect output without changing cycle time. For example, a closer that can work on 15 loans at a time may close 5 per quarter, even though it may take her a long time to close each loan. Because her load is high, she can meet output goals with a long cycle time.

The number of loans closed is part of the picture. The time it takes to close a loan is another. We cannot assess this accurately right now, but should work to define this standard.

Figure 1: Closing Performance Variables



One variable cannot change without changing at least one other.

Two can change and the third may remain the same:

\* Cycle time is inversely proportional to output if load remains constant.

\* Output is proportional to load if cycle time remains constant.

\* Cycle time is inversely proportional to load if output remains constant, although there are practical limits to the range of cycle time.

- b. The point here is that output, cycle time and load are three interrelated variables in the loan production process. You cannot get an accurate picture of the process by looking at any single variable alone. On the other hand, you do not need to look at all three. You can pick any two to adequately assess productivity.
- c. Because the objective of loan production is to book loans, the output variable is an obvious choice for one of the two assessment variables. The load variable, however, is not easy to assess. Task Force #1 gave load expectations as 8 to 12 for packagers and 4 to 6 for closers. These statistics are helpful diagnostic benchmarks, but they are too difficult to obtain to be part of a performance evaluation. Instead, the cycle time variable is objective and can easily serve as the second variable to assess closing efficiency. We want to emphasize again, however, that closers should be aware of the load benchmarks from Task Force #1. They can use these to analyze irregularities in output and cycle time.

We should track days to close although it will not yet be a part of the performance evaluation.

We must establish a standard for the number of days to close as part of the review of these measures.

- ii. Now that we have discussed the value of a time standard, we must acknowledge that no clear standard exists at this point. ELISa data shows over 20 days from TSBC approval to SBA approval, often because the borrower has not yet returned the commitment letter. From SBA approval to close takes, on average, almost 60 days.
- iii. We recognize that any time standard would be affected by the type and complexity of a deal, among other things. However, we still need a standard. These mitigating factors can be addressed in any thoughtful performance evaluation. We need not shirk from a standard simply because there will always be exceptions. We set standards as much for the benefit of the closers as we do for the company overall.
- iv. We need to evaluate closers by their cycle time, but at this time, with nonstandard procedures and indefinite goals, it is almost impossible to accurately determine how long it should take to close a loan.
- v. Therefore, we recommend the following course of action to determine a time standard:
  - a. *Days to close should become an immediate part of closers' quarterly performance reviews.* However, this is simply to record this data. *It will not be part of the evaluation at this time.* This data is already in ELISa; we may need to adjust some of the views to make it more concise.
  - b. *As part of the 90-day assessment of these measures, a group of closers and managers needs to analyze cycle times to determine time standards.* This group should answer the following questions:
    - 1) How long should it take to close a loan at TSBC?
    - 2) Are there time standards that can be set for key milestones in the closing process which can be used as diagnostic indicators to help closers?
    - 3) What are the obvious delays in the process: Waiting for customer and other third parties? Repetitious data entry? Too many motions? Redundant quality checks?
    - 4) In what way can the process be obviously streamlined?
  - c. There will be a temptation to prematurely recommend ways to streamline the process before it is standardized across all the LPOs. We must avoid this temptation. *To alter the process for speed before it is even defined is a waste of time at best, and, at worst, a barrier to ever fully defining the process at all.* Any hunches about streamlining should be collected and reviewed at this 90-day assessment. Of course, partitioning the process to separate construction disbursements, 504 closings along with obvious automation tasks are not part of the process

definition and may proceed immediately.

- d. After the 90-day assessment, it will be possible to make further adjustments to speed up the process. *It may be necessary at this time to initiate a time and motion study of the closing process to further identify inefficiencies.* If it is necessary to perform such a study, it must be performed deliberately, with clear objectives and clear timelines. If not it will be perceived as a lack of resolve and will adversely affect production.

#### 4. *Customer Service*

- i. Currently there is no way to assess what is emerging as a significant expectation we have for our closers: quality customer service. Task Force #1 repeatedly referred to customer service as an essential element in a closer's performance. The "packager calls the customer within 24 hours . . . ; communicate directly with the borrower . . . ; call borrower and introduce balance of the closing process . . . ; close customer contact . . . ."
- ii. *The emphasis that Task Force #1 has placed on customer service is surpassed only by what appears to be a complete neglect of customer service assessment not only during closing, but also during any phase of the loan production process.* Lapses in customer service are probably frequent throughout the loan process, but because we have not paid attention to them, there is no way to tell.
- iii. To be able to assess customer service quality, we recommend the following actions:
- a. *We must set a corporate standard for customer service and begin to inculcate an ethic of service into every member of the loan production team.* That standard should encourage communication with customers that is prompt, professional, courteous and complete. We must train our associates in the psycho-logic of human communication and show them how to be effective message managers, not merely information shufflers. This standard must be published and taught in a deliberate program that can easily coincide with the process training we anticipate.
- b. *We must develop an "exit interview" for customers to determine their perceptions of our customer service.* The design and results of these interviews must be weighed carefully, since customer perceptions can be easily skewed by variables beyond our control. However, carefully considered, significant examples and conclusions drawn from these interviews should be included in closers' quarterly reviews, and the reviews of other loan production team members, and

We must set a standard for customer service.

We need an "exit interview" for customers to get their perspective on the closing process.

We need to develop customer contact scripts to guide closers in making customer contacts.

- should also inform future reviews of policies and procedures.
- c. *Management needs to supervise the development of specific customer service standards as suggested by Task Force #1, including the development of contact “scripts” to assist closers in making customer contacts.*

#### IV. Management Tools

In addition to clear performance standards, we have identified several other tools that managers can use to direct the closing process.

##### A. Periodic Coaching Calls

1. File review can catch quality problems only after they occur. Efficient management demands some way to catch problems before they occur, and a way to teach through averted errors, as well. Periodic coaching phone calls meet these needs, along with creating a sense of accountability.
2. By coaching, we mean real-time, interactive guidance and training in a small group or individually. As a mode of teaching, coaching is different from lecturing, the most common teaching mode which is generally done in larger groups with little interaction. It is also different from discussion, the mode most teachers are least equipped to direct. Coaching is critical for the closing process because no matter how well we define the process, we must ultimately rely on the closer’s judgment to assess each new situation and make good decisions. Effective closing is a skill, and coaching is the best way to teach a skill.
3. The coaching calls should look and sound like a doctor taking medical students on “rounds.” “This is your patient. Tell us about it.” “Have you considered looking at . . . ?” “Did you check the . . . ?” “This is not your patient, but what would you do about . . . ?” There are several important points about this method.
  - i. *First, these calls are not designed to give the coach information about the deals.* These are not status report calls. These are not pipeline update calls. The coach wants to find about the closers, not the deals. What do they know? What have they checked? Certainly, the coach may pick up some information about the deals along the way, but this is not the primary focus. If these calls devolve into a mere status report—“OK, tell me what deals you have that are going to close this month”—then they are pointless and a waste of time.
  - ii. *Also, these calls are not reviews of closing policies and procedures.* There are other avenues for those comments. Closers may question and criticize the process, but the coach should take note of these comments and hold them for the quarterly policy and

Coaching calls are a way to do real-time training, with real-world examples and group interaction.

Coaching calls are not status update calls.

procedure roundtable.

- iii. *The coach needs to ask pointed questions and listen.* Only after listening completely should the coach give direction. The he can emphasize the correct course of action not only to the closer responsible for the deal in question, but for all closers.
- iv. *Notice that these calls put the closers “on the spot;” they are made accountable for their work not only to the coach, but also to the other closers.* This accountability is an important constraint and motivator.
- v. *Notice also that these calls provide case studies for training all closers.* If a problem arises and the coach corrects it, it gives him a chance to teach a lesson with a clear example, instead of the closers hearing about a remote closing rule without knowing how it fits in to real-life deals.
- vi. *These calls are not part of the formal performance evaluation process.* They are an aid for the closer to “get it right” before the deal is closed and before a formal review. A careful coach will take note of closers’ strengths and weaknesses, but only insofar as he can help the closer immediately, not for the sake of a performance review. Coaching is not spying.
- vii. *The effectiveness of these sessions depends on the skills of the coach.* The environment cannot be adversarial or hostile. The closers should be concerned enough to be prepared, but they should also know that the coach is there to help them. These calls can be a very effective tool with the right coach.

Coaching calls should be held every week at the start, then every other week later on.

The closing manager should be the coach.

4. These coaching calls should take place regularly, following a predictable schedule. At first, after the process is newly defined, they may need to be weekly for the first 8 weeks, then every other week as the process is clear.
5. The coach should be the closing manager. The underwriters could use a similar model under the SCO.

#### B. Closing Mentors

Closing mentors tap into informal communication channels.

1. The closing mentor is a mechanism for the efficient assimilation of new closers. Even though a closer has formal, official channels for getting information and advice, much of what a new employee learns comes through informal channels. Often, organizations try to suppress these informal channels, since they are difficult to control. The more you try to suppress these channels, however, the more they thrive and the more potent their messages become.
2. Instead of trying to suppress informal communication channels, a better strategy is to adopt them, to use them to deliver messages

consistent with official channels. A mentor program is one way to co-opt informal communication channels and to ease a new employee's assimilation into the organization. In effect, a mentor is an official, informal channel.

A mentor is a fellow closer who knows the process.

3. *A mentor is a fellow-closer who can be trusted to preserve the integrity of the closing process.* If the new closer is in an office with another veteran closer, the veteran would be the most likely mentor. If the new closer is alone, any solid closer from another office should work. Closing management officially designates the mentor; both the mentor and the new closer are aware of their relationship.

A mentor provides information and advice.

4. The mentor should supplement official communication channels. She should be there as one more source of information and advice for the closer. If the new closer needs advice on a loan, she can call the closing manager, or she can also call her mentor.

A mentor points the way for solving problems.

5. The mentor is responsible for giving the new closer whatever help she needs. This would include technical advice on closing, information on how to handle benefits/HR issues, etc. There may be certain kinds of problems—specific personnel issues—that the mentor may want to refer to management, but the door to the mentor should be open for anything. The mentor has to use her judgment about how to address the questions that come from the new closer. *The mentor cannot be perceived as a secret agent for management. Instead, she is a buddy to the new closer.* In addition to answering questions, the mentor should check in with her new charge every week at first, then about every other week for the first 6 months of the new closer's employment. She simply asks how things are going and offers her help with any problems or questions that might arise.

Management must emphasize the benefits of having mentors.

6. Mentoring, along with each of these measures, must be properly sold to the closers. They may perceive it as an added burden on top of their already heavy load. Management may react by considering the closers to be intransigent and unwilling to help. This outcome would be counter to the productive closing culture we need. We need to emphasize that the work a mentor does is minimal, no more than the time spent chatting over a cup of coffee. We also need to emphasize that this is a service they perform not only for their charges, but also for everyone in the company; the more efficiently we can assimilate new closers, the better chance we have of meeting our goals.

### C. Quarterly Performance Evaluations

1. Transamerica already has annual performance reviews. However, the closers need additional feedback on their performance. Annual reviews, as they are typically executed, protect the company; they document performance and justify incentives. These quarterly reviews should be focused on helping the closers meet their performance

standards. The company benefits, too, but the focus should be on the employee.

2. The review should include the following:

- i. Quality grade from post-closing file review with any significant examples
  - a. This would include feedback from TSBC servicing dept. on specific deals as appropriate.
  - b. This would also include results of outside audits, reviews, e.g. SBLC/FCA audit.
  - c. Note: If such a system were in place for the RCMs, the measure would be results of PARs, exceptions to policy, loan performance, e.g. payment delinquency, average weighted risk rating, other portfolio/new business measures.
- ii. Number of loans closed in the quarter.
- iii. Average number of days to close a loan (initially for information only; should be phased in as part of the review).
- iv. Customer service comments: in the absence of an objective standard, this would include significant comments received from customer surveys.
- v. Any other comments about the closer's performance from other levels of management.
- vi. Any factors beyond the closer's control that may have affected her performance, such as a lean production pipeline for the period, complex deals, an uncooperative borrower, etc.
- vii. Specific suggestions for improving performance, if it is below the standard and not mitigated by other factors. Perhaps the closer needs additional training, or perhaps she needs to consult with the RCM more frequently. Again, the focus is on helping the closer.

Performance reviews should include the four performance standards plus additional comments, mitigating factors and strategies for improvement.

3. These reviews should be administered routinely every quarter. We understand that this will put an extra burden on closing management. However, most of the items on the review should be objective and can be drawn from ELISa. The process of compiling the reviews should be streamlined enough that it can happen quickly, without being too burdensome. Again, this is a service that management performs for the closer.

Performance reviews should be quarterly.

4. Furthermore, each quarterly review provides specific data for the annual review, which can be a more involved process. Ideally, performing regular quarterly reviews will shorten the time it takes to perform the annual review.

Performance reviews should feed into the annual review.

Repeated low performance should be grounds for dismissal.

5. If a closer falls below the performance standard without mitigating factors, the closing manager should help the closer achieve the standard by providing additional training and coaching. If a closer repeatedly falls below the performance standard even after additional measures, the closing manager must consult with senior management regarding the closer's possible dismissal.
6. Please note that we have described this review process assuming it will function in the present organizational structure. If RCMs are designated as team leaders, they may assist in this quarterly review process. The team leader's role will have to be determined if the structure changes.

#### D. Quarterly Policy Roundtable and Review

1. Most managers do not understand the persuasive power of procedures. Some may ignore their procedure statements, letting their procedures grow like an untended garden. Others regard their procedure manual as a dry rehearsal of information, a vapid statement of raw instructions that employees absorb with machine-like efficiency. Quite to the contrary, a statement of procedures, in whatever form it takes, is a persuasive message. It gives expectations; it features some things and masks others; it directs attention. It becomes a kind of corporate liturgy, a body of formal movements we reenact day after day. To that extent, a procedure statement belongs to everyone, not merely to management. The employees come to depend on it. Whether they always follow it or not, they always know it's there.
2. To change procedures carelessly, therefore, is like re-arranging the desks in a classroom of blind students. The mechanism by which procedures change should be as formal as the procedures themselves. Therefore, TSBC needs a routine cycle of policy review and revision. *We recommend that closing procedures and policies be reviewed every quarter in a roundtable conference call or meeting, if possible, of all closers, credit personnel and representatives of senior management.*

We need a regular cycle of procedure and policy review.

The roundtable review can be a phone call or a meeting.

The roundtable review should have a published agenda.

- i. The roundtable can be conducted as a conference call. It may coincide with other corporate meetings, which would be better. Either way, management needs to take it seriously; they are discussing changes to a resource on which the closers depend.
- ii. The schedule should be set far enough in advance to make sure everyone participates.
- iii. The agenda should be published beforehand. It should include items for review from coaching calls, production teams, customer surveys, management, legal, audits, file review—any source. The closing manager should collect these items throughout the quarter

and hold them for the meeting.

- iv. The closing manager should conduct the roundtable discussion. The purpose of the discussion is to review each item on the agenda and reach a consensus about any possible change.
- v. After the meeting, the list of proposed changes and their justification will be submitted to senior management for formal approval. Senior management should approve the changes within two weeks. They should then be formally published and the policy and procedure statements should be amended.

Senior management within 2 weeks should approve the results of the roundtable review.

All changes to procedures should come from the roundtable review unless there is an emergency.

- 3. *Unless an unforeseen emergency arises, there should be no changes to the closing policies and procedures outside of these quarterly roundtable reviews.*

#### E. Training and development

- 1. The coaching calls and mentors perform a training function, but effective management of the closing process requires other forms of training, as well. These should include:
  - i. *Annual or semiannual refresher session for all closers.* Generally this would be conducted by closing management in cooperation with other senior managers; however, there may be times when external trainers may be appropriate as well.
  - ii. *New hire training.* In addition to the manager, the team and the mentor, new closers need a deliberate and structured introduction to the training process at TSBC. This should be conducted in Greenville over the course of two or three days. Time spent with closers at another region may supplement this introduction, but should not replace it. New hires need the corporate perspective first.
  - iii. *Training from other external sources such a NAGGL or RMA, if readily available.* This kind of training can help develop a sense of professionalism among our closers.
- 2. Other forms of training may be necessary as the need arises.

There should be additional, supplemental training for closers.

#### F. Other Tools

Beyond the core management tools we have identified above, there are other tools that can also help the closing manager.

- 1. Objective new hire standards. The performance standards that we have identified here should be a guide for hiring new closers. As much as possible, closing management should try to determine how a prospective closer may meet the TSBC performance standards based on past performance and objective skills descriptions.
- 2. ELISa/Notes enhancements. There are several additions and changes that we can make to ELISa and our Notes system that will make it

We should set objective standards for new hires based on the four performance standards.

We can make changes to ELISa to support the initiatives discussed here.

easier for us to communicate with each other and to track deals. These include:

- i. Building a standard closing checklist into ELISa which could adapt to the particulars of each deal.
  - ii. Adding closing documents to ELISa to automate document production.
  - iii. Providing a link between ELISa and T-Soft and between ELISa and the new ITI replacement, SBA Loan Manager.
  - iv. Standardizing post-approval comment procedures in ELISa.
  - v. Adding a companion database that would facilitate loan review.
  - vi. Modifying exiting views to show number of deals closed per closer per quarter and average number of days to close a loan.
3. Standardized Documents: We need to establish standard documents for loan closing. This would include:
- i. Closing documents
  - ii. Checklists for various types of loans—both for borrowers and for closers (Perhaps these should be the same checklist so the borrower and the closer both see things the same way).
  - iii. Letters—to the customer, lawyers, third-parties
  - iv. Customer Contact Scripts—talking points for closers as they talk to the borrowers
4. Loan origination process/procedure manual
- i. We have focused our efforts on developing a loan process/procedure manual. This manual is important to the comprehensive definition of the closing process and to consistency in all loan processing centers.
  - ii. This manual should be thorough, yet it must be designed in such a way that a reader can get a quick overview of the key ideas.
    - a. It should include:
      - 1) A clear description of the closing process, including hold-points, approval levels, etc.
      - 2) Functional roles and responsibilities of loan closing officers and loan closing assistants, the closing manager and any other roles involved directly in the closing process.
      - 3) Underwriting and closing checklist
    - b. The manual should be housed in Lotus Notes as the current Credit Policy manual is, where all employees can review it in a searchable, easily-updated format.
  - iii. *We emphasize, however, that even though a manual is important,*

We must design standard documents for the closing process.

The closing procedure manual should be a clear reference for closers. It should not be the primary tool for teaching and coaching.

*it is an ineffective way to enforce policy consistency. Simply put, no one reads manuals. It must be available as a reference, but the closing manager must rely on other tools to introduce and teach the closing process.*

5. Customer "Exit Interviews" as we have described earlier.
6. Company wide suggestion box in Lotus Notes for anonymous input, comments, problem identification, and positive recognition.
7. Regular visits to the loan production offices by senior management. These visits give the manager a chance to see and "feel" what happens in each office. In addition, the attention a visit pays to the employees binds them to the company and makes them feel more a part of the whole. These visits should be regular and not only when there is a problem. Senior management can work out a schedule for these visits.

## **V. Additional Recommendations**

In addition to the recommendations that extend directly from our task, we have a few other recommendations regarding the loan origination process in general.

### **A. Team Leaders**

1. Designating the RCM as the team leader in each loan production office has been a popular topic in all the task force discussions. Task Force #1 in effect made this recommendation and there seems to be a growing consensus to take this step.
2. In this report, we have assumed that our measures would apply to the current structure. However, we have made the following observations:
  - i. Implementation of the team leader concept must not detract from the work of defining the loan closing process.
  - ii. Clarifying the closing process will re-enforce the RCM's leadership role in itself. The RCM controls sales with his approval authority and will better control closing with clearly stated closing oversight.
  - iii. The RCM is perhaps the best choice for the team leader.
    - a. They are focal point of origination process, working with both business development and closing staff.
    - b. They possess, overall, a higher level of knowledge and experience in lending and origination process.
    - c. They have significant involvement in post approval phase, e.g. review of appraisal, construction budget/contract, revisions to use of proceeds.
    - d. They have the overall responsibility for quality of the deal.

Team leaders may help the process, but the RCM will have more central authority simply by our defining the process.

The closing manager is the coach. The RCM is the quarterback on the field.

iv. The RCM as team leader and closing management will have to work together to insure a smooth closing process. The RCM must act as the quarterback on the field; the closing manager is the running-back coach. Each has a different perspective and function. These roles need to be defined for the team to routinely reach the end zone. Again, naming a quarterback alone will not guarantee the success of the team.

Teams must communicate.

Teams must be evaluated.

Teams need training.

3. If this does become the consensus and we move to a team leaders, we have the following recommendations:
  - i. The teams should meet regularly to discuss operational and pipeline issues.
  - ii. The teams should receive some form of performance review based on the volume of underwritten/closed loans, conversion rate, etc. Senior management should initiate the review with self-evaluation by team leader.
  - iii. We may need to consider some form of team training including:
    - a. Process training for team by internal trainers.
    - b. Team-building exercises by external facilitators.
    - c. Team leader/manager training and development by external trainers and resources.

#### B. Open the process to everyone--A Horizontal Perspective

We must make the most of our small size by being first-class communicators.

The loan closing process should be clear to everyone.

1. Every member of the loan production team needs to understand the whole loan production process, not in equal detail, but at least as a general overview. We have fallen into a dangerous default pattern of not enforcing a common perspective on the loan process; therefore, we each look at the process in different and generally incompatible ways. In other words, we have a "stove-piped" organization—isolated units that do not talk to each other. This is fatal for an organization of our size.
2. In a large organization, this stove-piping is more tolerable because the economic efficiency of size offsets the operational inefficiencies of functionally separate units. In a small organization, there is no economy of scale, so there is no offset for the communication inefficiencies. The advantage of a small organization is rapid response and operational efficiency, which can come only through careful control of perspective through communication. We have not exploited this advantage.
3. *Therefore, we recommend that the definition of the loan origination process be extended, as directed by the initial task force memo, to underwriting and sales.* In addition, we have to identify those

elements that are common to the entire process, such as superior customer service, and emphasize these elements. *We also must take a perspective on the process that will leverage our advantages as a small company. We must then open the process to every associate, making sure each one understands how the parts fit together to form a coherent whole.*

4. For example, we may choose to focus our efforts on closeable loans. Regional Account Managers would then focus, not on closing the loans themselves, but on what they can do during their part of the process to help close loans more quickly. A RAM makes almost innumerable choices about how he will communicate with a potential customer. Most of the choices are made almost automatically, with little conscious thought. We need to teach the RAMs to be more conscious of the choices they make. We need to have them choose the path that will make a loan easier to close. Often, this choice will not involve more work from the RAM, but simply different work, smarter work.
5. *Perhaps we may take this horizontal integration to another level by completely redefining the organizational structure to emphasize the horizontal progress of a loan through the system instead of vertical functional units such as sales, credit and closing.* We have said repeatedly that we have a problem with communication hand-offs between units. Perhaps we can better leverage the process by organizing our structure around the progress of a loan.
  - i. For example, when a patient goes to the hospital for heart surgery, he travels through the process horizontally, even though the hospital is usually organized vertically—the medical floor, pre-op, surgery, cardiac ICU, post-op. Each unit is so large its staff can focus exclusively on their own department with little contact with the other units. No one knows the whole. The patient has a hard time getting the whole picture because no one knows the details of the next step he will face.
  - ii. Our loans travel the same way. No one knows the whole. Customer service stumbles because each unit is separate from the others.
  - iii. Some hospitals see this problem and are trying to restructure themselves horizontally. Perhaps we should consider the same approach of reorganizing our structure along the path of a loan's progress.

We should consider restructuring the company based on the progress of a loan through our process.

#### C. Effective rollout of the task force measures

1. Once the process is defined and senior management ratifies the management measures recommended here, the reformed process

We must be deliberate and clear when we rollout these

measures.

needs to be rolled out deliberately, with clarity and openness.

2. Everyone should understand that we are aiming at McDonald's-like consistency for the sake of the company, the associates and our customers. While the changes to the process may not be drastic, everyone needs to understand that we are taking clearly different steps to manage and direct the process.
3. We should take a positive perspective on the need for these reforms. There will be a temptation to say that we are being forced to make these changes by our new parent. However, this negative appeal may be self-defeating; it amounts to a weak and negative definition of ourselves at a time when we need an affirmative statement of our own character. We are making these changes because they need to be made for our own purposes, no matter what forces may have brought us to this point. Senior management must be univocal on this point.
4. The rollout must be well defined, with a definite starting point and review points. It must be clearly marked and well illuminated. We must keep in mind that it is a persuasive campaign and that a well-defined message is best received.

## VI. Review of these measures

Sr. Management should review these measures.

- A. The recommendations in this report should be subject to review. *If, after a reasonable period of time, they do not work because they are flawed, they should be changed. If they do not work because they have not been implemented, management should account for why they have not been put into action.*

They should be implemented and reviewed again in 90 days.

- B. We expect the following to take place:
  1. Senior management and the other task force members should immediately review these recommendations. This group may amend, accept or reject our recommendations.
  2. Once the procedures are agreed upon, they should be implemented at whatever pace is reasonable, given our resources and goals.
  3. Once the procedures have been implemented, they should be formally reviewed in 90 days for effectiveness, consistency, troubleshooting, corrective action, and feedback from loan origination staff. The reviewing group should include senior management, functional managers, and loan origination staff members. This group should make amendments to these recommendations which should then be put into effect.
  4. After this initial review, further review of these measures should be part of the roundtable policy and procedure reviews and routine management discussions.

We must not neglect the spirit of the recommendations we have made.

- C. We have carefully considered the measures we have recommended in this report. No one item is essential to the success of the closing process; certainly there may be other ways of accomplishing the objectives we imply here. *However, we are confident that if we do not take immediate steps consistent with the spirit of this report, we will be unable to effectively control the closing process at TSBC.*