

COLEMAN REPORT

The SBA Lender's Industry Information Source

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Bob Coleman, Editor

Bobby Tannenhauser's New Venture

**Former BLX President is CEO of BoeFly, a small business loan matching website
Discusses Patrick Harrington and the impact on BLX's 300 employees
Lessons learned from BLX's closing**

In 2008 BLX, the nation's second largest SBA lender, closed its doors and filed for bankruptcy.

In This Issue

**A special double issue of the
Coleman Report.**

**The interview with Bobby
Tannenhauser, 2-8**

Earlier that year, Patrick Harrington, one of BLX's executive vice presidents, was convicted of committing the largest SBA loan fraud in history totaling over \$70 million.

After years of governmental investigation of the nineteen co-conspirators perpetrating the fraud, Harrington was the only BLX employee indicted. He is currently serving ten years in prison. Harrington's acts, coupled with the collapse of the world's capital markets, were obstacles the company simply could not overcome.

Former BLX president Bobby Tannenhauser sat down in his New York office with Bob Coleman of the Coleman Report last month to discuss his new venture, BoeFly.com, previously known as GovGex.com and the Small Business Loan Exchange.

CR: Tell me about BoeFly. First of all, where did you get the name from?

Tannenhauser: BOE started out as Business Opportunities Exchange. But we were looking for something that was a little bit whimsical because it's really hard to come up with a descriptive name that captures all that we do for small business lending. We couldn't get the web address "boe.com." Apparently, there aren't many three-letter web names left. So, we put "fly" on it to indicate how deals will fly through the system.

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CR: What is your mission statement, your business plan? What exactly do you do?

Tannenhauser: One of the positives from the last year and a half is that I've had the opportunity to step back and assess what had been and is still going on in the industry. BoeFly is the result.

My view is that there are terrible inefficiencies in the way small business loans are made and processed. People are brought together by the "old boy" network. Loan brokers and business development officers focus on their few referral sources and have their one or two lenders that make their loans.

The industry was not using 21st-century tools to broaden access to capital and bring together compatible parties. No one was taking advantage of the Internet except Mike Rozman and Edgeware Analytics, as they got GovGex.com and the Small Business Loan Exchange up and running.

These were good platforms to start with, but I felt that with the recession and the restraints in the capital markets, it was time to make a larger investment – improving and expanding the scope of what Edgeware had started. We could have a significant impact on the industry and the economy by efficiently getting necessary funds flowing to small businesses.

CR: Is it fair to characterize BoeFly as a LendingTree.com for small business loans?

Tannenhauser: No, it's much more revolutionary than that. Lending Tree is just a lead-generation site. BoeFly is far more dynamic and cutting-edge.

For example, we've created SmartForm, our loan application document, which is what the lenders

on BoeFly will look at to make intelligent decisions on loans. We canvassed lenders, and based upon their input and our own experience, we provide the documentation lenders want – their best practices. When they review the content in SmartForm, lenders will know right away if they want to move forward on a particular loan. The lenders will then have to do their own diligence. Their underwriters and business development officers will have to verify the information presented and get to know their borrower.

The key value to lenders is that they don't have to spend the time and effort going through dozens of different loan applications and gathering all the documents they need in order to find the one that fits their criteria.

I remember from my lending days how tremendously costly and inefficient that process was. My business development officers would go through twenty loan applications before finding one good one. That methodology was inefficient even during the boom years, and it's even worse today. BoeFly's cutting-edge matching technology overcomes this problem.

CR: Give me a couple of examples of some cutting-edge technology that you will be implementing in this process.

Tannenhauser: Start with SmartForm, which is a secure, dynamic, writable PDF. It's easy to use, easy to fill out, and allows easy uploading of all backup documentation – tax returns, financial statements, appraisals, etc. Loan seekers can complete it electronically, save it, and return to it at any time. It eliminates all the traditional cumbersome paperwork.

CR: The small business person will be actually scanning documents and uploading them to the

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website?

Tannenhauser: Right, or the broker will scan them and upload them to our secure BoeFly platform.

In addition, we generate a Completeness-and-Compatibility Score to verify that the application is complete and to determine how compatible the submission will be with the requirements given to us by our member lenders.

Lenders will furnish us with their specific loan criteria on a secure and confidential basis. We'll match the application with lenders who want to see that type of loan. Lenders will not see loans they don't want to see, and loans will have a much better chance of being made.

If the broker or borrower wants to increase their score, say by adding more collateral or equity, they'll be able to access more lenders that might be interested in the loan.

In our secondary marketplace, we also offer compatibility scoring to link loan buyers and sellers. We have a Gain-on-Sale Calculator, that lets deal makers instantly evaluate the profitability of a transaction.

BoeFly's technology creates efficiencies that haven't existed before.

CR: Let's talk pricing. What's the cost to the borrower? To the applicant?

Tannenhauser: There are two ways they can get into our system. If borrowers go through one of our member brokers or referral sources, there will be no cost to them from BoeFly. The broker or referral source will be a member of BoeFly for a small monthly fee. If they do one transaction, they'll probably pay for five years' worth of fees.

It will be almost like a subscription to a magazine – plus they get to use all the other tools BoeFly makes available to them at no cost. Our goal is to not pick anybody's pocket on the deal. We're looking for a large number of subscribers – members – putting a lot of people together at a very small cost to everybody. With the value you're getting, it makes sense to be on BoeFly. Why wouldn't you want to be on this site?

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*Bobby Tannenhauser
President
BoeFly.com*

CR: There's a membership fee for the lenders as well?

Tannenhauser: Right, a membership fee for lenders as well.

CR: But there is no per transaction cost?

Tannenhauser: No transaction cost. We found people were resistant to that. They don't want to pay another commission or fee on top of what they're already paying to their BDOs and/or referral sources. The marketplace seems to be gravitating away from paying referral sources. There are still a lot of fees being added on, and we didn't want to be in that mix. We just need a small amount to cover our costs and enable us to make a profit.

CR: What type of deals will you be doing? Will

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you be doing exclusively SBA?

Tannenhauser: No. Obviously, in the beginning a lot of it will be SBA, but we will be doing conventional deals, too. We'll be doing small real estate investment deals, up to \$10 million to \$15 million. Those borrowers are also having trouble finding lenders to do their deals, so they're not getting done. Then, we'll add commercial transactions for those buying and selling real estate.

That marketplace is also inefficient. For the last year and a half, I've been a buyer of small properties. My deals basically came from brokers I know, because until BoeFly there has been no national site if you're looking for small commercial properties.

CR: Let me rephrase the question. What percentage of your transactions will be SBA?

Tannenhauser: In the beginning, probably a great number of them.

CR: Because of what's going on in the credit markets today?

Tannenhauser: Exactly. Right now the opportunity in SBA is tremendous.

CR: Tell me about the management team.

Tannenhauser: We have Mike Rozman, who's been in this business for five years. I met him when he was first starting out. I was very impressed with his company, Edge-ware Analytics, and what they were doing with their credit-scoring tools. When they evolved into GovGex.com and the Small Business Loan Exchange – the SBA secondary market – I thought it was a brilliant transition. They brought a lot of transparency and value to the

marketplace.

David Nayor has an excellent business development and small business lending background.

Isabel McDevitt is our extremely talented marketing director.

We also have our web gurus working in the back office with all the tech stuff, which I know very little about! (laughter).

Then, there's me. I have a lending background and a small business background. I also have a legal background. I practiced law for twenty-five years.

CR: What are the titles?

Tannenhauser: Mike and David are the executive vice presidents. I'm the president, but in an operation like ours, titles don't matter. Everybody rolls up their sleeves and does whatever they need to do to get it done. We are dedicated to working around the clock to get it done.

We're all really excited about it, because it's something new and dynamic. The marketplace hasn't seen anything like BoeFly before – a one-stop shop for commercial transactions. It's going to take a lot of people by surprise. They'll say, "Wow, this is really something!"

There are 7,000 to 8,000 community banks sitting out there that don't have access to all of their potential borrowers. Another very important point is that if they have liquidity problems, they can also post their portfolios – their problem loans – on our site. There are private investors out there looking for this type of product. That's something we see all around the country now – small banks, and large banks, too – struggling

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with bad portfolios. Right now they're paying commissions to sell their loans – if they're fortunate enough to find buyers at the right price.

Now, they can upload their basic loan information to BoeFly's Loan-Sale Marketplace and we're going to match them up with buyers, with no commissions. It's all included in their monthly membership fee. Go to BoeFly and we'll put you together.

And we're nationwide. If you want to close a deal, say, in Jackson, Mississippi, we make it very easy and efficient. We'll have the BoeFly member service providers you need – appraisers, environmental firms, lawyers, engineers, etc. – all experts in their areas.

CR: Let's talk about BLX.

Tannenhauser: There are certain things I can't go into. Things that are public information we can talk a bit about.

CR: I understand. I want to focus on a couple of issues. The first issue is how are you addressing what happened to you personally?

Tannenhauser: Personally? Obviously I went through a horrible couple of years at BLX. It was a very well-perpetrated scheme. It was one that was very, very difficult, if not impossible, to uncover.

There was a group of conspirators that consisted of people inside banks who would issue false bank checks and false bank statements, which were furnished to us in order to show that the

necessary equity existed. Our closers and processors would see these and have absolutely no reason to believe or suspect that they were not legitimate. In fact – you probably read and listened to the testimony in the Senate – the Inspector General indicated that the auditors couldn't be expected to uncover this. According to the Administrator's testimony, the fraud was ultimately uncovered by the Secret Service.

As I understand it, one of these conspirators was trying to cash a bogus bank check. When he was caught, he turned Pat Harrington in.

CR: What lessons did you learn?

Tannenhauser: At the time we had no reason to suspect the legitimacy of the bank statements and bank checks issued by these institutions. In hindsight, if you have a concentration of loans with one producer, the same bank, etc., you need to double check with the bank – with a different bank officer – and tell him or her that you want to verify that this bank check and statement are legitimate.

What we did do – very well – at BLX prior to the uncovering of the fraud was that we had checks and balances. We monitored everybody on a performance basis.

I testified to what we had been doing all along years before this fraud came to life. When we found out that Detroit's gas station performance wasn't what it should be compared to other gas station C-store loans across the country, we shut down gas station loan originations in Detroit. I believe that we did what we were supposed to do with the information we had.

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CR: In the new venture, in dealing with SBA loans, will any of the residue from BLX affect the new venture? I guess what I'm getting at is whether you will need the SBA's approval for any part of this process.

Tannenhauser: No. We're not making loans. We're not brokering loans. We're just putting people together. We're not verifying loans. We're not verifying information. It's up to the banks to do their own due diligence.

CR: A big issue is whether you think the bankers aware of the BLX situation will shy away from participating in BoeFly?

Tannenhauser: I think most bankers who understand what went on realize that "there but for the grace of God go I." In this situation, you have to understand that Harrington was an experienced loan originator who knew the system and knew how to game it. We received documentation from banks that we had no reason to believe was not legitimate.

And bear in mind, we were one of the larger lenders, and we're talking only about 70 loans that were involved in this scheme out of the more than 5,000 that we made.

It happened. I and everyone else at BLX deeply regretted it. We had always valued our relationship with the SBA and carried out its mission.

CR: You got a lot of coverage from me. To be fair and balanced, would you like to refute any of it or comment on what we did?

Tannenhauser: The story was big news in the SBA industry, and it was interesting. It's fair that you did cover it.

You're aware, I think, that after the Harrington thing broke, we reached an agreement with the SBA to make them whole. We did the right thing. In fact, years before, when we uncovered mistakes on deals that were done – and you and I both know that happens when you're doing a lot of loans – we would repurchase the guaranty without even being called on to do it. That's the nature of how we did things. We valued integrity in our company.

My biggest problem with all the publicity is that we had 300 really good employees who were hurt and were tainted by the acts of one person. That's my biggest regret, and that's the story that didn't get out there. These people did their jobs well and were concerned with constantly improving our operations and serving the small business community. I wish I could have them all back working with me.

We had really good systems in place, and we always had the highest ratings on SBA/Farm Credit safety and soundness reviews. We had some of the lowest loss rates in the SBA, and we had some of the lowest loan denial rates on guarantees in the SBA business.

Plus, 70% of our loans were to minorities and women-owned businesses and veterans. All of us believed in SBA's mission. One bad apple and the capital market collapse changed everything. We survived the Harrington matter, but the credit crisis made it difficult for us, as a nonbank lender, to survive.

CR: What advice would you give a bank chief credit officer or a bank president who suspects something is foul in their organization? Based on your experience and what you've learned, what advice would you give them?

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Tannenhauser: There are certain things that you can and can't do within the constraints of employment law. What we did early on is that we had an independent investigation of our Detroit office by a nationally known law firm. They came back to us and said, "We don't find any evidence of wrongdoing."

Clearly, a well-perpetrated fraud is difficult to uncover.

However, for performance reasons, we did cut out that operation.

My suggestions to other lenders are to monitor performance at all levels – originators, underwriters, closers, post-closing auditors, and, of course, brokers; and to monitor concentrations – industry and geographic – for each of the above individuals.

You don't want to have any group or person or industry constituting a large part of your portfolio.

You also want to have checks and balances. You want to have different underwriters underwriting loans from different originators so there's not this feeling of comfort that develops. People should be motivated not just by volume, but also by quality, performance, and lack of errors. And you always want to have a post-closing department looking at the loans and reporting back if there are mistakes and errors.

These are all things that we did. I think we did them very well. Our people were trained to improve performance using Six Sigma methodologies – to really look at and eliminate errors and come up with best practices.

We were an amalgamation of four companies: Transamerica Small Business Lending; Independent Small Business Lending; Allied Capital Small Business Lending, which is where Harrington came from; and Business Loan Center, which was my company.

CR: A big issue is whether you think the bankers aware of the BLX situation will shy away from participating in BoeFly?

Tannenhauser: I think most bankers who understand what went on realize that "there but for the grace of God go I." In this situation, you have to understand that Harrington was an experienced loan originator who knew the system and knew how to game it. We received documentation from banks that we had no reason to believe was not legitimate.

We had taken the best practices from all of them, and we had a very good operation. From what I hear from my people who are out in the field now in different places, we were head and shoulders above the others in our diligence and what we did. Unfortunately, we were victims of this fraud like everybody else. Unfortunately, we all were tainted as a result of it.

CR: I gotta ask this question. In terms of the Harrington situation, you took a big hit, along with BLX, Allied, and also the SBA. The responsibility fell on your shoulders. What part of that do you accept?

Tannenhauser: Obviously, I was CEO of the company, so the buck stops with me. In retrospect, I've looked at what we did. I don't know how I could have done anything differently. At the time, questioning the legitimacy of official bank checks and bank-issued bank statements was not on our radar screen, and I doubt it was on any other lender's. With the benefit of hindsight, I would recommend verifying these items when you have BDO, broker, and other relevant concentrations.

The loans that were made in Detroit were primarily gas station loans made to people of

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Middle Eastern descent. The fact is that after 9/11, the performance of those loans started to drop off. We weren't sure if this was caused by backlash in the community, the general drop in the economy -- especially in Detroit -- or some other reasons. I was compelled to say, "Let's watch this portfolio." We watched it, and when it didn't perform as well as the gas station loans in other areas, I said, "Let's stop doing these loans," and we did.

CR: Patrick Harrington got a pretty stiff sentence. Was it fair?

Tannenhauser: He got ten years.

CR: Was it fair?

Tannenhauser: Was it fair? Do I think it was fair? If you take into account all the people he hurt -- he hurt 300 people at BLX -- I think they would all probably say it was fair, because they became unemployed and found it very hard to find jobs. Some still haven't found jobs. So part of the loss was borne by them and BLX and Allied. A good company went out of business. Equally important, borrowers, primarily minorities and people who normally would get loans from BLX, didn't get loans.

Damage was done.

I don't know if it was fair or not.

CR: Any other comments?

Tannenhauser: I think the past is behind us.

As far as BoeFly is concerned. It's a very, very exciting new endeavor. It's the opportunity that's needed for the commercial transaction industry to become more efficient and robust and to contribute to economic recovery. We really have to do it. Just like every other industry has to become more efficient, this industry must also if it's going to operate profitably and keep credit flowing to small businesses.

The bottom line is we need to restructure how we do business, how deals get done.

BoeFly will accomplish that, and I believe the marketplace is going to recognize it very quickly.

CR: Thank you. Good luck with your new venture.

Tannenhauser: Thank you for taking the time to come and see me.

For more information, go to BoeFly.com.

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