



MR. PRESTON *goes to* WASHINGTON

BY NANCY DENEEN

What would it be like to enter the President's Cabinet in the middle of a crisis? How would it be to face the media glare, intractable bureaucracy, and public and congressional scrutiny? Business executive and Northwestern alumnus Steve Preston had a chance to find out, when he agreed to steer the U.S. Department of Housing and Urban Development (HUD) during part of the worst housing crisis in decades. In that position and in the one immediately preceding it—as head of the Small Business Administration—he won over many skeptics and earned praise from Democrats and Republicans alike. But both positions were hugely fraught with problems. Here is that Washington crucible through the eyes of a private citizen with no political experience but with a desire to serve his country.

In mid-2006, the Small Business Administration was facing a firestorm of criticism for its bungling of disaster loan assistance following Hurricane Katrina. Almost a year after the storm, few of the 100,000-plus homeowners and small businesses who had been approved for a loan had received their funds, and many were still waiting for approval.

“When I got the call [to lead] SBA, I had a sick feeling in the pit of my stomach,” says Steve Preston. A former business colleague, then serving in the Bush administration, had suggested his name after consulting with him. Preston’s 25-year career had included 10 years as a Wall Street investment banker and 9 as a top executive of ServiceMaster, Inc.—the large home cleaning and lawn care company—but his only political experience was running the student congress in high school.

As he told *Crosscurrents*, “For the last year, I had been watching news reports about New Orleans

and Mississippi. I’d been sending money to people and praying for them. Now I had an opportunity dropped in my lap to actually do something about [the crisis]. And I thought, when I look back on my life, this is going to make a much bigger difference than a bigger bank account.” He and his wife, Molly, told their five children that this was their opportunity to serve too, by leaving their friends and comfortable life in suburban Chicago and moving to Washington, D.C.



STEVE AND MOLLY PRESTON AND THEIR CHILDREN

Critics of the nomination cited his heavily-corporate resume and lack of experience as a small business owner, but he was unanimously confirmed by the Senate and was sworn in by President George W. Bush in July, 2006. He assembled a small team, rolled up his sleeves, and began to work.

He wasn’t prepared for the dysfunction he found.

Even when a loan had been approved, he says, that didn’t mean you got your money. Finalizing the documents resulted in significant delays. “If for any reason you had to change something—say you moved and changed your address—on average it was taking the SBA two and a half months to process that change. The backlog in that one process affected about 80,000 people.”

The SBA aids small businesses with training and lending programs, Preston explains, and helps them sell their goods and services to the federal government. But the agency’s lesser-known mission is to be the federal lender to homeowners and small

businesses whose facilities have been destroyed in a natural disaster. Eighty percent of that direct lending in a disaster is, in fact, to homeowners.

Problematic to people trying to rebuild their homes, or businesses, was SBA’s assembly-line style of loan processing. Many people handled a little piece of the process, but no one had the oversight to answer a customer’s questions or correct a mistake, not until Preston came along.

“We blew up the entire assembly line and put everyone on integrated teams,” he says. “We had financial people, legal people, clerical people, and customer service people sitting together and working on the same loans. Communication was better, error rates went down significantly, and most important, the people who were getting loans had their own service rep, a human being who was accountable for getting them through the process.”

Not only did productivity improve, but the same SBA employees who had been so severely criticized were now part of the solution.

“It meant that our people were no longer working on paperwork, they were working on cases for people—people who needed a home and couldn’t get a home because they didn’t have their money. And it totally lifted the spirits of our organization.”

Because the crisis was severe and he had so little time to fix it, Preston says he had to do things in unconventional ways. When he saw the huge bottleneck at the New Orleans parish clerk’s office—which meant that people couldn’t obtain the titles to their homes required to close their loans—he sent his own employees there to help speed up the process.

He held a town hall meeting, open to the public, and listened to whether or not his team’s fixes were working. Against the advice of his press secretary, he let the news cameras roll.

“It was a very jolting experience,” Preston recalls. “It was very emotional. People were crying, talking about what had happened to them. When the news showed up, I said, ‘We are all about transparency. If they want to put a camera in here, put a camera in here.’”

His “throw caution to the wind” leadership style paid off. Under Preston, the SBA implemented reforms that cut processing times for disaster loan applications by up to 90 percent. Ultimately, the agency distributed approximately \$6 billion in loans to disaster victims.

Praise came from unexpected places. When President Bush nominated Preston to run HUD in April 2008, John Kerry, the Democratic senator from Massachusetts who lost to Bush in 2004, was one of his strongest supporters. Kerry knew Preston’s work from his oversight of the small business committee, but he was on the opposite side of the political fence.

“Preston is widely credited with correcting major problems at the Small Business Administration,” said Kerry, in a statement released at the time. “Mr. Preston inherited an agency in disarray, and he’s worked hard to right its course and to improve relationships with Congress We may have some differences on policy, but he’s always been professional, responsive, and dedicated to the mission.”

FAR LEFT, PRESTON, AS HEAD OF THE SMALL BUSINESS ADMINISTRATION, WITH MINNESOTA SEN. NORMAN COLEMAN (AT RIGHT) AND A LOCAL CITIZEN AT A DISASTER RELIEF CENTER DURING FLOODS IN MINNESOTA.

AT LEFT, AS SECRETARY OF HOUSING AND URBAN DEVELOPMENT, PRESTON MEETS WITH THE PRESS IN NEW ORLEANS.



WITH PRESIDENT BUSH DURING SMALL BUSINESS WEEK



FAR LEFT, PRESTON WITH PRESIDENT ÁLVARO URIBE VÉLEZ OF COLOMBIA (AT RIGHT IN PHOTO) AND U.S. REP. EDOLPHUS TOWNS (N.Y.–10). WITH THE SECRETARY OF COMMERCE, PRESTON LED A CONGRESSIONAL DELEGATION TO ADVANCE A TRADE AGREEMENT WITH THIS STRATEGICALLY IMPORTANT AND CHALLENGING COUNTRY.

AT LEFT, THE PRESTON CHILDREN MEET PRESIDENT BUSH IN THE OVAL OFFICE.

AT RIGHT, PRESTON WITH HIS SONS

FAR RIGHT, BIKING IN FRANCE



Steve Preston's early life seems to have prepared him well for the dual Washington challenges. Neither of his parents graduated from high school but they passed along to their children a high regard for education, a strong sense of family, and the ability to push through hard times.

"My father was the ninth of eleven children," he says. "He was born in a little shack in a coal-mining camp in Appalachia. My mother grew up in war-torn Germany, running to the bomb shelter during air raids and then living with a shortage of food when the war was over."

On a lighter note, he points out with a laugh, his parents' widely-differing accents were sometimes tough for the kids to figure out. And his paternal grandmother really did smoke a corn cob pipe.

He grew up in a blue-collar town, Janesville, Wisconsin, with two older brothers and two younger



Steven Preston
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sisters. Most parents in Janesville worked in the Parker Pen factory or on the GM assembly line, like his father. Preston admits to being a studious kid who chose wrestling as a sport because he was a "little guy" and could succeed despite his size. In addition to leading the student congress in high school, he played saxophone in the jazz ensemble and clarinet in the orchestra.

Even before then, in fact by age eight, he was fascinated by national politics.

"I remember staying up and watching the primaries where Nixon, Reagan, and Rockefeller were duking it out in '68," he says. "It was so interesting to me.... I didn't think that was odd until now, when I have

children that age."

At Northwestern, he loved his political science classes, especially those taught by Ken Janda. Study abroad at the University of Munich was the best and most broadening experience of his young life. At the time (1980–81), Germany was still divided into East and West by the Berlin Wall and the opposing ideologies the Wall represented. Preston recalls the political radicals, the communists and socialists, who would demonstrate in front of the classrooms and stand up in lectures and challenge the professors. "It was an entirely different set of world views and an entirely different set of opinions toward America than I'd ever been confronted with. It forced me to think through why they have these impressions and what we really have [in this country]."

He also became fluent in German, much to his mother's delight.

After graduating from Northwestern in 1982 and earning an MBA from the University of Chicago three years later, he embarked on a career in investment banking and corporate finance—a background which George Bush cited years later as a strong reason Preston should lead HUD during the housing crisis. Preston, said Bush, would understand the important role housing plays in the broader economy and would aggressively help home owners obtain affordable mortgages.

But only nine months remained in the Bush administration—nine months to restore some order in a chaotic housing market. Many expected the new secretary to be little more than a caretaker.



PRESTON VISITED VERSAILLES DURING JUNIOR YEAR ABROAD.

A main issue at HUD was Federal Housing Administration insurance: the guaranteed mortgages. When the housing market fell apart, many lenders simply stopped lending. The number of people who needed FHA insurance to get a mortgage skyrocketed, from 2 or 3 percent of the market to well over 20 percent. Job one for Preston and team was to quickly put in place procedures to handle the additional volume, without an increase in employees or budget.

Another problem was the four major public housing developments that were torn down after Katrina. Three years later, they had not been rebuilt.

"Even though I was there for a short period of time," says Preston, "I was going to do everything in my power to bring [that housing] back, better than ever before. We actually broke ground on two of the developments and we were very close to breaking ground on a third by the time I left." He and his team also finalized regulations to help consumers find lower cost mortgages and avoid unscrupulous lenders.

In effecting change, Preston says, it helped to be someone from outside the Beltway who didn't have to worry about being elected. "I wasn't politically savvy but more often than not, when I decided not to follow Washington convention, it was a benefit."

Known for his skills in listening to and motivating people, Preston—at both the SBA and HUD—made it a point to seek advice from career employees rather than just political appointees.

"You won't be informed enough as a leader if you just listen to the people who report to you," says Preston. "When you involve people who are a couple of layers down in the organization, who can see the problems, and you bring forward an opportunity to fix the problems, there is often a tremendous amount of energy and excitement about improving their

environment."

One of the hardest parts of working at HUD, for him, was knowing that the federal government in many ways is not set up for excellence. He insists that it could be.

"I'll give you a great example," he says. "HUD has at FHA over \$500 billion of mortgage insurance. But it operates on a 26-year-old COBOL system; I was learning COBOL at Northwestern in 1979. Without continuity at the top with a real management vision, you don't put in place the tools that people need to run their programs with excellence."

Preston left government service with a strong belief that effective managers from the business world should be rotated into public service, just as he was.

Calling Washington politics "a rough and tumble world," he cautions, "You will have people who aren't going to want you to succeed. But if you believe in the bigger mission, [the criticism] ends up becoming noise."

These days, Preston is enjoying the challenges of a new job—running OAKLEAF Waste Management, which designs and manages waste diversion programs for companies in order to reduce the environmental impact of the waste they generate. The type-A guy admits to enjoying sitting still only when it involves his family—watching his son on the lacrosse field or his daughter on stage in a play. Other scarce bits of free time are spent challenging himself by mountain biking on arduous courses.

Looking back on his time in government service, he says, "I had to lead with all the heart and with all the intellect I could muster. It was for me both professionally and emotionally a breakout leadership opportunity. I think the best that I had to give came out of me and that was very exciting." He encourages others to give it a try.