10 elements of effective loan generation & portfolio management

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Significant investments have been made in lending technology since 2010, primarily with the goal of producing an end-to-end platform by which to generate, underwrite, and book loans. There has been increasing competition in this arena from small fintech businesses as well as larger development firms. It can be difficult for a community-based financial institution to cut through the noise and determine which solutions represent the best fit for their organization. For all the buzz created through advertising, blogging, and other media, we cannot lose sight of the most critical goal of such systems – creating a meaningful journey for both borrowers and lenders through the entire process. Lending has been and always will be about relationship management. It is experiential. Software that facilitates the lending process, therefore, should be designed with a clear intent to enhance that experience. **When you analyze the process of loan approvals, from application through closing, you discover 10 key elements for an effective loan generation engine. This white paper will explore each of these.**

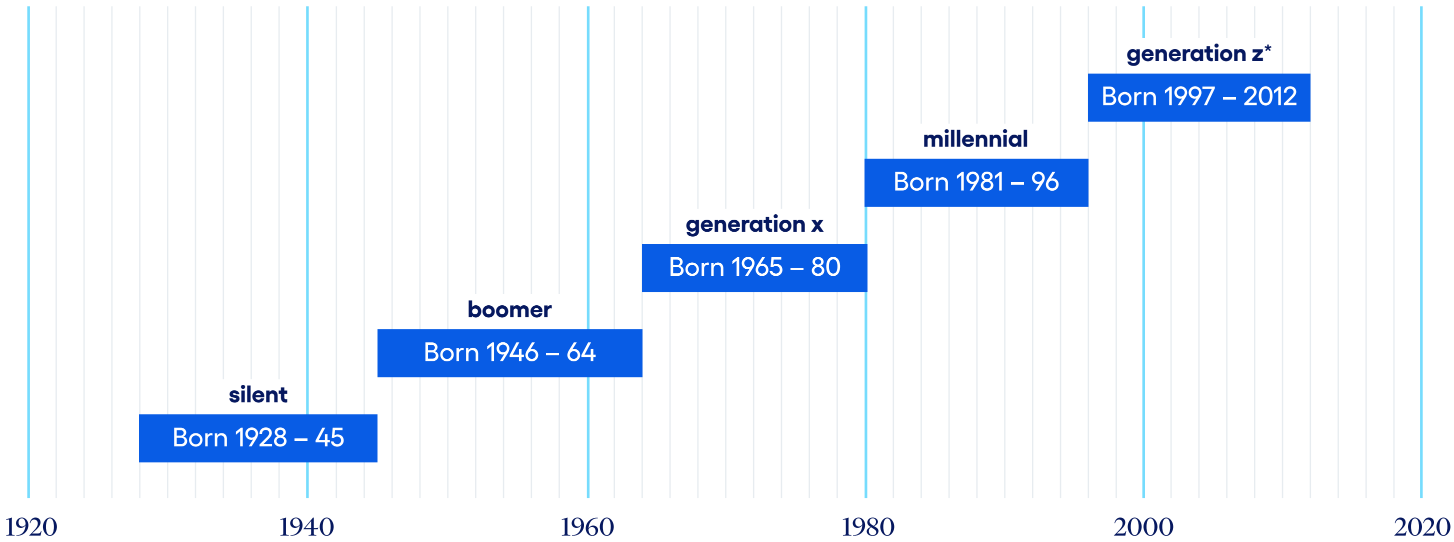
1. delivers efficient entry points for online, mobile, in-branch or loan officer input of applications

One challenge in today's market is appealing to all generations. Demographic dynamics are pushing service providers to deliver multiple methods of connection to their institution, including online, mobile, branch, and ATM. This is driven by a unique generational shift occurring in the U.S. that has to do primarily with baby boomers, millennials, and Generation Z. While boomers are retiring at a rate of approximately 10,000 per week, a significant number are either delaying retirement or opting for partial retirement, including taking on gig work. This segment of the population is helping to drive a resurgence in small service-related businesses.

The millennial generation, having delayed entry into the workforce after the 2008 recession, is now the most highly educated generation in American history. More than 13 years removed from the Great Recession, these individuals are riding a wave of start-up opportunities as well, both in the tech and service sectors. Between baby boomers and millennials – the two largest demographic groups in U.S. history – there are distinctly different preferences regarding financial services. These unique preferences are driving the need for financial institutions to create multiple channels to connect to their lenders.

Millennials and 'The Touchscreen Generation', also known as Gen Z, are reshaping the banking world. Many Gen Zers have entered the workforce and are becoming entrepreneurs with their own preferences regarding financial solutions. It has been noted that

The Generations Defined[1]



No chronological endpoint has been set for this group. For this analysis, Generation Z is defined as those ages 7 to 22 in 2019.

Gen Z has a strong focus on financial well-being and a deep desire to understand their money. Much research supports the importance of a feeling of community for Gen Z, particularly online community, where technology is only part of the value equation. So as baby boomers are retiring later, the sheer size of the millennial and Gen Z markets is having an impact.

Addressing the unique challenge of meeting the demands of these demographic groups will be a key to success for community and regional financial institutions that wish to grow both their consumer and commercial lending portfolios in the years ahead. While it is important to recognize these generational dynamics, it is also important not to go too far with that analysis. No one should make the mistake of generalizing these unique individuals by placing them into specific consumer preference buckets. The key for financial institutions is simply to realize that the diversity of those preferences is as wide as it has ever been. Each of these age groups, especially Generation X, has grown up in an environment where technology was changing at an incredible pace, and that has impacted how they all interface with their financial institutions.

2. provides elegant work queues and workflows that feed sales management pipelines

No matter what their age or technological preference, the borrower's journey is critical. They want positive experiences and an intuitive process flow. This includes the task of moving a loan request through your institution and providing updates to both your staff and the borrower regarding the status of the application. An evaluation of loan origination and loan management systems should include a review of workflow capabilities. Ask yourself the following questions to evaluate the system:

- Are workflows configurable to my organization?
- Are they configurable by loan type?

- Are they interactive? (Once a task is completed, can the ball be passed to the person responsible for the next task?)
- Do the workflows include notifications to prime my organization's personnel that a task is waiting on them for action?

The goal is to help bring transparency to the lending process, both for borrowers and lenders. This can be addressed by utilizing smart workflows as a tool to better inform lenders regarding the status of pending applications. This, in turn, allows the lenders to better inform the applicants. Efficient work queues serve two purposes: 1) they help to inform everyone involved as to the most recent status of the application, and 2) they help to provide an element of transparency within the lending process.

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3. a system is in harmony with your industry/ business rules and credit policies

An end-to-end loan origination system should create a positive experience for both the borrower and the lender. To this point, we have focused primarily on borrowers, but the creation of efficiency within the financial institution – the lender's journey – is every bit as critical as the borrower's journey. Smart lending systems should incorporate as much of the institution's lending and credit policies as possible. While this serves the loan generation process, it has an even greater impact as the end-to-end system begins to monitor financial covenants and exceptions for loans that have already been booked.

When evaluating a system, be sure to ask about implementation timelines and processes, as this will be an indicator of how integrated your credit policy might be with the commercial and consumer lending platforms. Does the vendor take the time to learn your policies and business rules? Are those policies baked into the mix during the implementation process? If not, how is the system ever going to be able to identify a policy exception? Meaningful lending platforms require a commitment from your lending staff during the training and implementation phases of the project. This is, in effect, a download of your team's lending policies and practices into the system. The end result is a system that seems to have been customized to your institution – because it has been.

4. facilitates robust financial spreading technology

The act of analyzing and spreading financial records can be cumbersome. For this reason, an end-to-end system should be graded, to some extent, based on the quality of this system feature. As you review options, have your lenders and credit analysts kick the tires. Ask whether the spreading components within the system promote efficiency. Do they contain the global cash flow analysis you need? Do they automate tax return spreading? Do they allow for spreading of multiple loan types? Are they flexible enough to accommodate complex CRE scenarios as well as C&I loans? Do they allow you to stress test CRE scenarios, such as tenancy?

The automation of financial spreading brings significant time savings to the underwriting process. Look for a technology partner who is committed to using technology to automate redundant processes and eliminate manual data entry.

5. reaches out to other informational systems as needed, such as personal credit bureaus, business risk scores, flood determination for CRE, etc.

Since it is unlikely that one vendor would be supplying all services relating to lending functions, it is critical that your lending platform incorporate an open API connection. Through this connection, other vendors and resources can send and receive information to populate key lending functions. This integration makes the loan platform dynamic, saving time and enhancing the workflow for both your lending officers and your administrative staff.

The open API might be available for use with multiple products from the same vendor, or it might be accessing data from multiple vendors. Some examples might include business tools for profitability analysis, loss evaluation with ALLL and CECL, pricing tools, and more.

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6. seamlessly allows for transition from spreading and analysis to loan officer presentation

In addition to what has already been addressed, the spreading system should work hand in hand with the loan officer presentation or write-up. Make sure the system allows for easy transfer of your spreads to presentations in order to accommodate approval of new requests as well as renewals. This is a significant time saver.

Rather than having to produce a credit evaluation and write-up for approval, the system should utilize information that has already been entered. By integrating the platform in this manner, your committee presentations can be produced much more quickly. The loan analysis and write-up can take a significant amount of time, depending on the requests. A system that eliminates dual entry and pre-populates the majority of the credit presentation can make a significant impact on your lending and credit staff.

7. offers specific functionality to serve multiple loan types (C&I, CRE, agriculture, etc.)

This was mentioned previously but deserves its own discussion. Chances are that you will be using the lending platform for multiple consumer and commercial loan types. These might include various subcategories of both CRE and C&I lending, such as lines of credit, investment property finance, construction lending, government guaranteed lending, agriculture lending, agricultural, and more. As you evaluate a new lending platform, consider the type of loans you currently provide, as well as those areas where you see expansion opportunity to other lending verticals. Does the proposed system offer the ability to serve your market while also creating new opportunities for your lending officers?

The current market is shifting from siloed consumer and commercial platforms to single platform technology that can accommodate both in one solution. This helps when underwriting small businesses, where the lines between consumer and commercial are often blurred. Financial institutions are beginning to demand a single lending platform. This makes sense given that small business owners are also individual consumers, and small business loan underwriting is so closely associated with the personal credit performance of the business owner.

8. facilitates all necessary approvals, including lenders, senior lenders, executive committees and boards

Once the financial spreads have been completed and the credit presentation is ready for review, consider how your loan generation system can help to facilitate the approval process itself. Does it offer the ability to secure approval signatures electronically by tracking those approvals? Is the system smart enough to know which approval signatures are required based on the loan type, the size of the loan, and the size of the relationship? This is where element number three comes into play. Even if your institution still holds regular committee meetings and executive or board reviews for credit, your loan generation system can foster better communication between these teams to help facilitate the credit approval and renewal process. It is worth noting that these features became critical during the worldwide pandemic of 2020 as branches closed and lenders had to share work remotely to facilitate critical small business initiatives such as the Paycheck Protection Program.

9. integrates with loan documentation systems

What if you are already under contract for use of a loan documentation system, and you decide to license an end-to-end loan platform? Even if that platform has documentation, suppose your contract with the other vendor does not expire for another year or two. In cases such as this, you would want the documentation system to talk with your lending platform. This is where the open API discussed earlier comes into play. Your goal should be a loan origination system that makes a seamless transfer through the lending process, from application to financial data collection, analysis, underwriting, approval, documentation, and beyond.

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10. retrieves and sends data to your core to eliminate dual entry

Now that your loan has been closed, you are ready to board to your core processing solution and begin processing the loan itself. Hopefully, the system has already communicated with your core throughout the application and underwriting processes. Core integration is another area of significant time savings on the path from application to funding and loan lifecycle management.

Hopefully you are constantly evaluating your lending processes and considering the borrower's journey through your institution. Their experiences, and those of your lending officers, will have the most impact on your financial success in the years to come. Again, lending is about relationship development. Look for loan platforms that can save your staff time while increasing not only their efficiency, but also their effectiveness. That time savings gives them the opportunity to do what they do best – interact with your accountholders and prospects. It also gives you a competitive edge and allows you to focus more on relationships and less on process.

source

1. *Defining Generations: Where Millennials End and Generation Z Begins*, Pew Research Center, January 17, 2019.

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