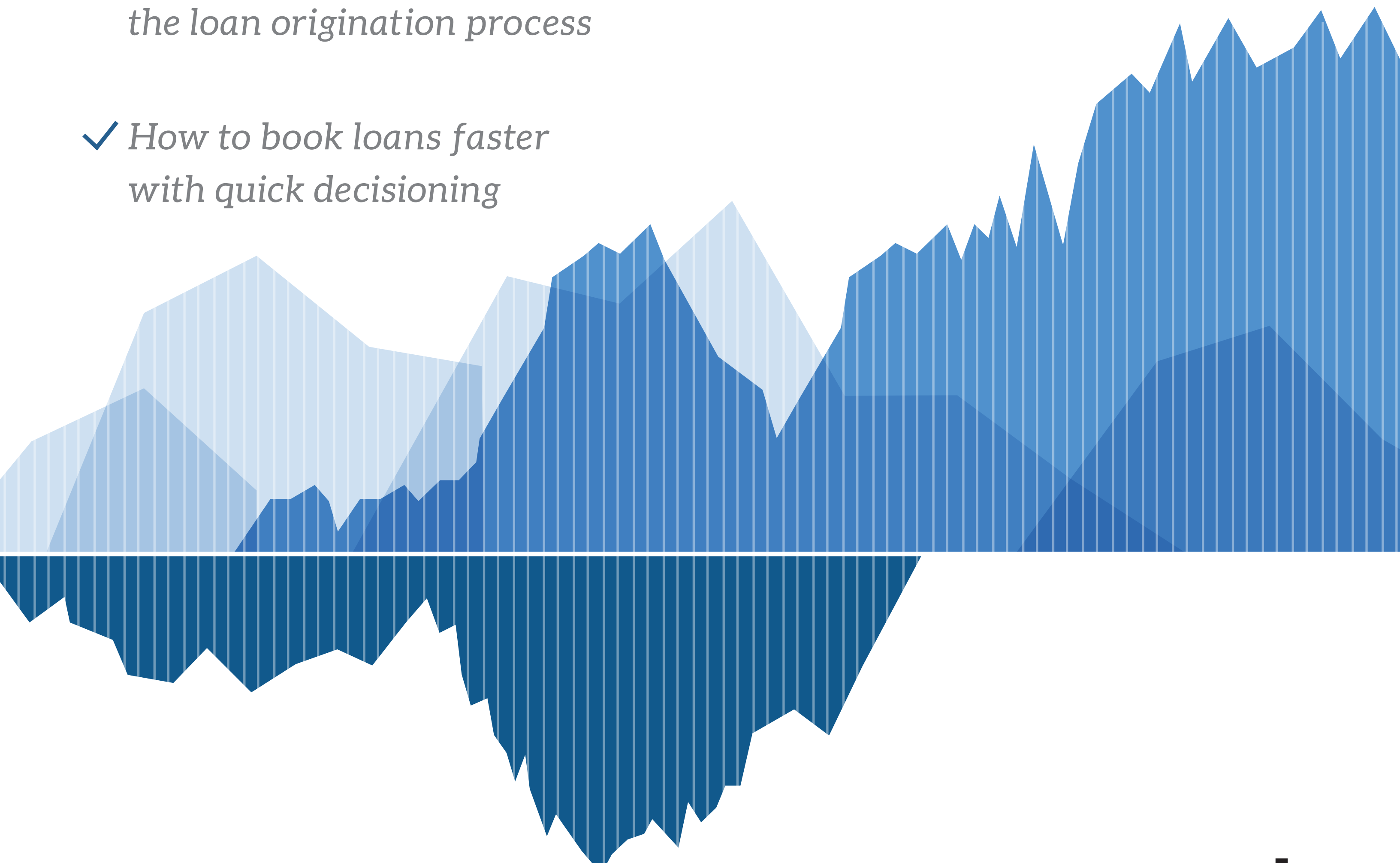
WHITEPAPER

Generating Efficiencies in SMB Lending Through Technology

- *6 Challenges in document collection*
- *Best practices for digitizing the loan origination process*
- *How to book loans faster with quick decisioning*



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INTRODUCTION

Business lending can be an attractive segment for banks and credit unions. Large, commercial loans can command significant revenue, and they open many new opportunities for consumer services as well.

Those opportunities have attracted competition to the space in the form of alt and online lenders and credit unions that have in the past focused on consumer lending.

With the increased number of players in the market, banks and credit unions have to seek out efficiencies in the lending process to *keep pace with competitors* and the expectations they are setting among commercial borrowers, especially Millennials who may be stepping into leadership positions.

The good news for financial institutions is that lending technology focused on streamlining the life of the loan is available and can prepare them to compete by automating key origination processes.

And, while smaller business loans have traditionally been a low-margin segment, lending technologies can offer enough cost savings to make SMB loans an *attractive area for growth*.

Some life-of-loan steps that benefit from automation are loan origination, document collection, spreading financials, credit presentations, loan decisioning, tickler tracking and correspondence generation.

ORIGINATION EFFICIENCY

For many institutions, operational efficiency begins at origination. The information collected at this stage is mission-critical, so a single point of data entry and storage sets the stage for efficiency later in the life of the loan. Customer relationship management (CRM) tools are one way to enable loan officers to organize potential customers and open loan applications digitally, all in one place. The more of this information that can be digitized, the more information efficiency is realized throughout the loan's life.

The origination process can also benefit from workflow management, and oftentimes a CRM will tie into a workflow product to outline next steps. The transparency and standardization that a workflow software provides ensures that, as the loan application is completed and becomes ready for spreading and decisioning, all parties involved comply with bank policy and are kept abreast of its status. It can also enable managers to identify bottlenecks – staff or steps that tend to slow down the loan turnaround time – and then to refine internal processes to mitigate inefficiencies.

Origination digitization could also satisfy another need within banks and credit unions: to keep pace with their borrowers' expectations. Stacy Cowley of the New York Times explains "...there is a significant increase in sales from business owners in their 60s and 70s who are ready to turn their creations over to a new generation of owners." As *this trend continues* and leadership passes to millennial owners, progressive banks and credit unions will redesign their application processes to mesh with millennial, digital preferences.

Additionally, a growing trend in fintech is the availability of loans to small businesses from *alternative lenders.* This competitive pressure may inspire banks and credit unions to digitize their loan application. Placing a digital application on the institution's website appeals to tech-savvy borrowers and improves the borrower experience with the convenience of not having to journey to the branch, and over time can reduce branch-related costs for the institution as more business comes in digitally.

STREAMLINING DOCUMENT COLLECTION

Document collection continues to be a significant challenge for many commercial lending institutions for new loans and renewals. Some of the specific issues banks and credit unions run into with document collection include:

- ✓ Receiving only the front page of a tax return, rather than the full return
- ✓ Finding a way to securely store PDFs so that they are still accessible to bank staff
- ✓ Not receiving updated personal financial statements (PFS) in accordance with the loan policy
- ✓ Sending out requests for documents with enough lead time for borrowers to comply
- ✓ Generating custom correspondence for each loan or borrower across the entire portfolio
- ✓ Tracking borrower compliance with loan covenants

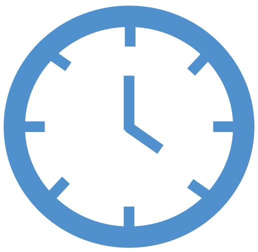
Institutions can gain great efficiencies by implementing a *tickler and covenant tracking system*. Ticklers, or reminders for when documents need to be requested from a borrower or third party, help give time for a borrower to respond by getting the needed documents to an institution. Consider, for example, updated insurance certifications. Many times tickler systems will have a correspondence generation function that, with a few clicks, can print hundreds of letters or send hundreds of emails at once. Time savings in loan operations can be significant compared to a manual process. Another benefit of digitized document collection is covenant tracking. When borrower financials come in, the institution can test and track covenants for debt service coverage ratio, loan to value, quarterly accounts payable and receivable amounts, as well as other common covenants.

UNDERWRITING EFFICIENCIES

Spreading of financials is an area that can benefit greatly from technology, increasing both efficiency and consistency. Financial spreading software can help a credit analyst interpret financials (especially *global spreads* that include multiple people and businesses, as well as real estate and co-borrowers and guarantors) and reduce the amount of time needed to type and retype financial numbers into *spreadsheets* for underwriting. Regulators and examiners often prefer that commercial lenders use financial spreading software as it increases consistency of underwriting across analysts, and it assists in making better quality loan decisions. Sageworks takes the automation one step further with its *patented Electronic Tax Return Reader (ETRR)* that automatically extracts data from

PDF tax returns and imports them to spreading software for an analyst. This saves the analyst from manual data entry and gives them more time to interpret financials to make an appropriate funding decision.

Sageworks ETRR has saved banks and credit unions approximately



671,780 OR **1,400**

MINUTES WORK DAYS

of data entry by importing more than **33,589** tax returns.

After manual data entry, perhaps the most tedious work for many credit analysts is generating credit presentations for loan committee. Often this is a source of frustration for both the credit analyst and/or lender, as well as the loan committee. Analysts and lenders have to re-enter data and metrics that they have already entered elsewhere once (or twice) before, and the loan committee has to deal with inconsistent presentations across analysts and lenders. By choosing a credit memo building software that integrates with the institution's spreading software, management can standardize credit presentations with pre-built templates that will auto-populate previously entered information, such as profile and background information, tax returns, personal financial statements, collateral information, credit report(s) and collateral documentation. When all this information is captured in an underwriting software it can be easily repackaged into a *loan request* presentation with just a few clicks. This results in significant time savings and more consistent presentations.

QUICK DECISIONING

A newer entrant to lending efficiency is quick decisioning lending technology. Without this technology, it may be the case that a bank has to devote the same amount of institutional resources to underwrite and fund a smaller commercial deal, such as a truck loan, as for a larger real estate or C&I *deal*. These smaller loans are not as profitable as larger loans, and since they require the same amount of resources, many banks will choose not to make the loan at all. However, that $60,000 truck loan to an existing borrower of 20 years is both a relatively safe loan and helps strengthen the customer relationship. Automating these small exposure loans can open up a new path to growth. It also preserves resources at the bank to focus on larger, more complex loans that benefit from a deeper analysis.

How does a quick decisioning model work? The institution defines decisioning rules through templates and sets parameters for the software to approve, deny or recommend further review based on each borrower's unique metrics. If a borrower exceeds all the minimum criteria, the loan is approved. If the application fails some of the criteria, it can be flagged as needing another review or declined. Common metrics used for quick decisioning include *DSCR*, LTV, credit score and DTI, among others.

WRAP UP

These are some ways that institutions are using technology to improve operational efficiencies and improve the borrower's experience. Digitizing information and automation can help the institution achieve faster turnaround times on loan requests. Institutions can opt to automate single steps, as outlined here, or realize process-wide efficiency gains through a holistic life-of-loan platform.

Which opportunities is your institution currently taking advantage of and which ones would you benefit most from implementing in the future?

ADDITIONAL RESOURCES

Tapping Growth Opportunities Business Loan Portfolio

Commercial Lending Software Buyer's Guide

Maintaining Credit Quality Whitepaper

Tips, Tricks and Tools to Mitigate Top Operational Risks

Leveraging Digital Channels & Capabilities for Revenue Growth

ABOUT SAGEWORKS

Sageworks (*www.sageworks.com*) is a financial information company working with financial institutions, accountants and private-company executives across North America to collect and interpret financial information. Thousands of bankers rely on Sageworks' credit risk management solutions to streamline *credit analysis*, risk rating, portfolio stress testing, loan administration and ALLL calculation. Sageworks is also an industry thought leader, regularly publishing *whitepapers* and hosting webinars on topics important to bankers.

ABOUT THE AUTHOR

Chance Castellucio
Credit Risk Consultant

Chance Castellucio is a credit risk consultant at Sageworks, where his primary responsibilities include assisting financial institutions with credit analysis, loan administration, and risk rating best practices. Chance focuses particularly on helping institutions across the country develop consistent and transparent underwriting processes. Prior to joining Sageworks in 2015, Chance served as a consultant working with national health systems. He received his B.A. and MBA from Florida State University