

White Paper **Commercial Lending Applications**

Engagements Identify Best Practices

It seems like the last bastion of manual processes in most financial institutions is Commercial Lending operations. However, multiple opportunities exist to add-on, upgrade, enhance and even replace current systems with state-of-the-art imaging, workflow and relationship management capabilities. In numerous engagements ADS has identified Best Practices that will bring Commercial Lending into the 21st Century. Many banks have implemented portions of our recommendations on Best Practices, while few have rebuilt Commercial Lending end-to-end. This article is not intended to be a vendor review, but rather an overview of ADS' findings on Best Practices in Commercial Lending. ADS has worked with and implemented a number of systems for clients to assist them in applying Best Practices, and is familiar with all of the key players in the Commercial Lending space.

Forces Driving the Industry

Driving the need to improve Commercial Lending processes are two key factors. First, is the regulatory climate, which continues to stack additional 'Know Your Customer' (KYC) and risk reduction requirements on banks. While important in the overall scheme, regulatory requirements often require additional cost, without adding any significant benefit. Key, though, in Commercial Lending will be the ability of banks to demonstrate risk compliance as Basel II is implemented in the US, which will have a positive effect on Capital requirements and a distinct cost benefit. Reducing the cost and complexity of the lending processes should offset some of the additional regulatory cost burden.

The second factor is the anticipated growth in Commercial loans as credit becomes more available along with the emphasis many banks are putting on the Small and Medium-size Business market. Process improvement and better controls are critical for banks expecting to grow the volume of loans generated.

Workflow Management

Automation within the Commercial lending space has been lagging other areas of the bank. The Commercial lending function has long been considered the most hands-on, customer interactive of all the functions in the bank. Lenders have long resisted giving up any autonomy and authority in their efforts to protect their business. Automating the workflow and processes from application through underwriting to funding is well within current capabilities, and brings huge benefits without negatively affecting the lender / customer relationship.

Current workflow management systems can simulate options, identify bottlenecks, interface with different legacy and imaging applications and provide real-time management reporting to track progress of a loan through the approval and funding process. Developing complete workflow automation within Commercial Lending is not a simple task, but requires the integration of multiple applications. Available workflow engines can sit atop to orchestrate the flow from opportunity identification to funding, and rules engines can ensure the process meets time, risk and approval requirements of the bank and ultimately provide lenders with more time to manage relationships rather than creating paper documentation and pushing paper files around.

Operational Performance



"ADS has terrific insight into the Commercial Loan challenges and was very helpful in identifying the correct course of action."

James C. Brown,
EVP & Chief Lending
Officer, Boston
Private Bank & Trust
Company

Image Enablement

Still have rooms full of loan files? Imaging documents, doing extensive back file conversions, and managing images instead of paper pays great dividends, and eliminates the nightmare of missing files and key loan documents. ADS has helped a number of banks migrate Commercial Loan files to imaging systems. This not only improves the ROI on the initial imaging investment, but also provides control benefits, reduces errors, and improves the management of the loan operations and file rooms. Too many banks initiate imaging projects and neglect the back file conversion. While imaging thousands of pages of old loan files may seem burdensome and, to many, unnecessarily expensive, it does reap long-term dividends. Many vendors provide the capability to do either on-site or off-site back file conversions at a reasonable cost.

Automate Decisioning Processes

Consumer loan underwriting has been automated for many years, and the technology and tools exist to do the same for small business and Commercial loans. Yet, many banks do not take advantage of these capabilities. While not all elements of the decisioning process can be automated for the more complex loans or larger clients, customer financials can be automatically spread and certain key data are now publicly available and can be easily accessed to minimize the time and expense of manual analysis.

Shared Services

ADS has been engaged by clients to centralize Commercial Loan operations during a number of mergers. Creating a centralized operation, while maintaining some local autonomy, is a practice that not all banks have mastered. Streamlining processes, ensuring timely receipt and turnaround of documentation, decisions and modifications is a difficult process to map, yet does have benefits. Centralized control over all documents, risk management, underwriting and pricing provides for greater control and allows for a more rapid response to deteriorating market conditions.

Automate Document Preparation

Automating legal and compliance documentation via a standard document preparation system makes great sense and reduces in-house legal and manual documentation preparation costs. This is especially beneficial when centralizing the loan operations and funding functions across a large geographical footprint. Vendor systems provide state specific legal documents, with bank specified language and logos, reducing in-house costs of maintaining current documentation. Additionally, centralizing and standardizing document preparation reduces the opportunity for front-office lenders to modify loan agreements.

Separation of Duties

Ensure that the right people are doing the right things. Your relationship managers should be building relationships, loan administration staff should provide support, credit underwriting should focus on maintaining the bank's credit standards while provide prompt decisions, and loan operations should hold it all together by reviewing and validating completed loan packages and ensuring that loans are entered on the system accurately. Too often we see duties intermixed for historical reasons, which may include senior, more highly paid underwriters doing clerical tasks rather than doing their most important job of understanding and documenting the risk in a loan package.

Profitability

Measuring only a portion of customer relationships paints an incomplete picture, and may result in the bank classifying clients incorrectly. Too often we see siloed systems providing only a portion of the client's portfolio of services, and, most often, not at all quantifying a client's overall risk profile into the profitability equation. Today's account analysis systems provide pricing data, and, even then, often miss some of the associated costs or volumes. Developing a complete picture of the client's activity with the bank, and adding the costs of servicing and risk into the mix, will be increasingly important to drive relationship decisions. Only with a complete view of the relationship, including any ancillary accounts (i.e., personal, employee and Trust), will the bank fully understand who are its best customers, deserving of more attention and better retention strategies.

Compliance

Today's regulatory environment makes compliance everyone's priority. As we've noted above, regulatory requirements are growing more burdensome, and will directly impact the required capital and reserves set aside by banks as Basel II is imposed on the US banking industry. There is a clear cost benefit accompanying improved compliance posture. With improved automation, compliance can be managed more easily through online document form management and consistency in lending practices.

Risk Management

Is the primary concern of the relationship manager to build relationships, generate interest and fee income, or to manage risks? While many banks are clear on the goals of their relationship managers, too many ask them to be more than they should be, or less than they can be. When we have engaged with clients, we often find confusion between the client facing roles and back office roles. This always results in conflict. Being clear on the objectives of each function within the end-to-end Commercial Lending process ensures there is no overlap or competing objectives to bring confusion to the process. Confusion creates risk and damages customer relationships

Conclusion

While there are as many different approaches to organizational structure, operations and process improvement, and lending as there are banks, we have tried to identify the elements ADS has seen most beneficial to building a modern, efficient and well managed Commercial Lending function. Given the difficulties in today's regulatory environment and credit markets, banks who build and manage a more effective and efficient Commercial Lending operation should reap benefits through improved controls, lower costs, reduced risk, and enhanced customer satisfaction.

*For more information
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About ADS Financial Services Solutions

ADS Financial Services Solutions (ADS) has been serving the critical business and technology needs of leading financial institutions nationwide for almost three decades with operational consulting, systems integration, and business alignment services.

For over 28 years, ADS has delivered hundreds of complex projects for leading financial institutions nationwide, ranging from operational consulting and systems integration to business alignment services. Financial institutions turn to ADS for our industry insight and leading edge technology experience. Our team is recognized by our clients for consistently delivering innovative, practical, and effective solutions, on time and within budget.

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