# The Case for Automation in Commercial Lending

The Commercial Lending scenario in recent years in the US has been witnessing a steady growth, with commercial loan growth hovering around a healthy 8-9%. This boom period in lending has seen some of the bigger banks allocating as much as 35-40% to commercial loans in their lending portfolio.

This trend has fuelled a stiff competition, particularly for the SME and Community banks. While SME and Community banks might look at expanding their lending portfolio by venturing into SBA, CRE and Industrial loans, their legacy systems can often act as a deterrent, making them less competitive.

Here's what legacy systems are doing to the banks
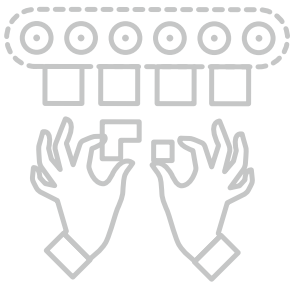
Creating dependency on manual processes

- Manual collection and management of data for review by the Relationship Manager

- Manual creation and circulation of Credit Memorandum to decision makers for approval, manual check on adherence to credit policies/compliance, manual management of documentation at the time of closing & funding, manual management of collaterals and records for client visit reports

- Manual correspondence with departments handling 3rd party appraisals

- Lack of automated capturing and monitoring of covenants. Expedited documents are not tracked

- Lack of automated credit risk policy checks for Single Obligor limit (SOL), Economic criteria, Approval Hierarchy , Deviations management

- Underwriters struggle with excel worksheets to calculate ratio. Capturing of PD, LGD fields and additional ratio's calculation are not inbuilt into their systems

- For each Proposal Credit Review, templates are generated manually by underwriters in Word files

- Lack of electronic movement of cases between Loan officer (RM) and portfolio management team leads to high TATs (sometimes 2-3 days) and inefficient customer service

Needless to say, all of the above leads to inefficiency, escalating costs, non-compliance and manual errors. With no method to track TATs and SLAs, rework is required in almost 50-60% of the cases
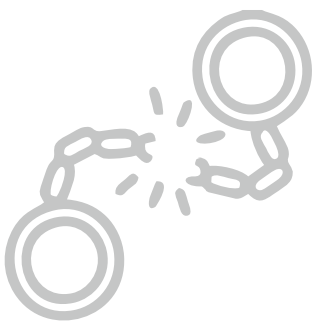
Broken Processes

Sending digitized documents via emails undoes the efficiency that banks can potentially achieve through digitization. Siloed processes render loan processing inefficient. For instance, once the Loan Officer sends a credit application to the analyst and the underwriter, he has no visibility into the status of a particular case, nor does any other stakeholder. This leads to poor status tracking and monitoring, increasing pending applications, redundancy and duplication of work. Loan documents needs to be delivered to the right person at the right time to get the application moving. Siloed processes don't help in logical routing of cases & real time monitoring of proposals.
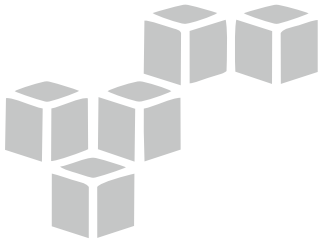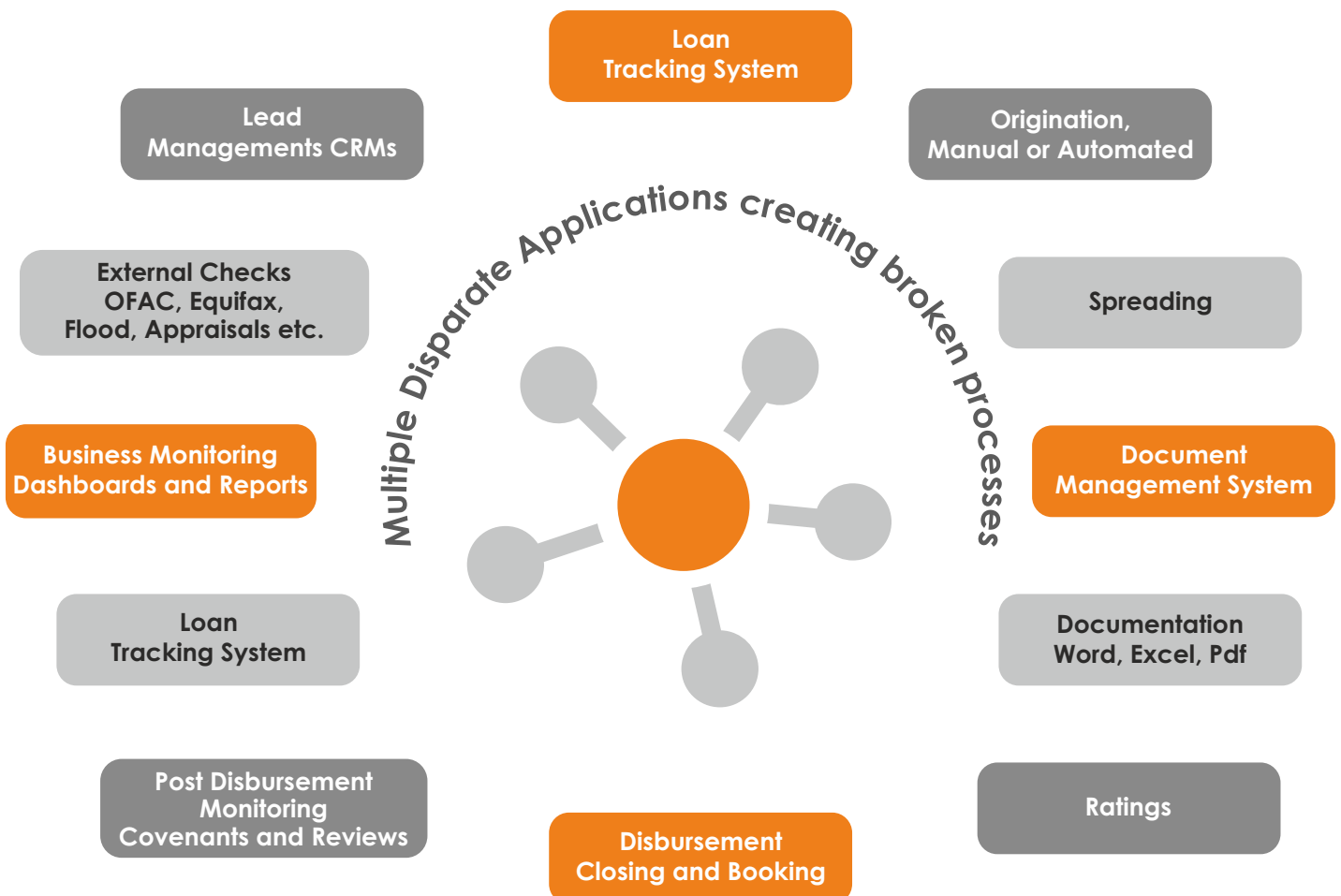
Managing across Multiple Disparate Applications

Majority of banks have so far been working with disparate applications in order to process a loan proposal. In an effort to tackle the burgeoning volume of business needs, banks opted for the quickest possible method to resolve bottlenecks. For instance, most banks have a hard coded core system where all their transactional information is stored. However, this system does not have the capability to communicate with credit rating sites. As a result, users would manually import data from individual sites and maintain them in spreadsheets. With time, banks were sitting on layers upon layers of disjointed applications such as document preparation software, rating software, spreading software, excel files and more.

Even though these applications served the purpose at hand, it gave rise to the swivel chair phenomenon where users would switch between screens to complete a process. This led bank users to input the customer data multiple times in multiple applications such as loan origination, spreading /risk management system, documentation, external/third party appraisals and post disbursement covenant, review & renewals.

Multiple Disparate Applications creating broken processes

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- Loan Tracking System
- Lead Managements CRMs
- Origination, Manual or Automated
- External Checks OFAC, Equifax, Flood, Appraisals etc.
- Spreading
- Business Monitoring Dashboards and Reports
- Document Management System
- Loan Tracking System
- Documentation Word, Excel, Pdf
- Post Disbursement Monitoring Covenants and Reviews
- Disbursement Closing and Booking
- Ratings

Difficulty in adhering to complex rules and regulations

Lending is a policy/rules driven process. There are rules and decision logic across various stages of the process, including applicant qualification, pre-screening, underwriting risks, deviation management and differential pricing of loans; compliance to these rules is an integral part of the lending process. However, credit policies governing lending keeps changing with the changing economic environment. Therefore, banks face the challenge of adherence to these complex regulatory guidelines which are dynamic in nature. Banks at the same time need to cater to business demands for shortened loan approval cycles. Bank legacy systems find it hard to balance their existing manual processes and hard coded policy applications.

In spite of these issues, banks continue to work with their legacy systems which is eating into their profitability by escalating costs, creating inefficient processes. This in turn renders them incapable of competing with bigger banks.

## Surviving & Complementing Legacy Systems with Newgen Commercial Lending Framework

Newgen uses best practices to provide a configurable technology platform to help banks create a paperless, seamless electronically driven workflow environment where documents and data move side by side. Banks can leverage new age technologies to manage loan origination to disbursement which is made seamless through integrations with other supporting applications and are straight through to the extent possible using business rules engine.

If you have identified with majority of the pain points, here's how Newgen Commercial Lending Framework can help your bank survive even with legacy systems :

Automation through digitization of paper documents

- Capture loan requests and information from any channel – Online, Branch, Email, Phone, Web, Tablet, Agent/Third-party, physical documents, fax, scanned documents, images and store all request while tagging and indexing them in one centralized repository, making retrieval easy and auditing possible

- Generate dynamic checklists based on product and party type

- Track documents to ensure that various documents like CARF, CAM, Credit Analysis Review and Commitment Letter are generated automatically

- Automate daily/management reports, doing away with manual handoff of credit packages (physical documents)

- Electronic movement of cases between Loan officer and portfolio management team, leading to TAT reduction of (sometimes 2-3 days) and efficient customer service
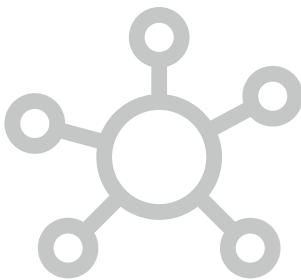
Connecting Broken Processes

- Automate and meet bank specific workflow needs – absorbing best banking practices and higher adaptability of solution by users in a unified and configurable BPM framework

- Route documents/applications to the next logical step in the workflow, eliminating human intervention

- Send relevant stakeholders notification for clearing/completing files in queue and remove dependency on arrival of physical documents

- Automate capturing and monitoring of covenants & documents that are expired. Automatically send notification to business users prior to the expiry of the instruments

- Automatically route relevant documents to relevant stakeholders, ensuring processes become optimized and efficient

- Enhance visibility to the entire process, along with effective tracking and monitoring
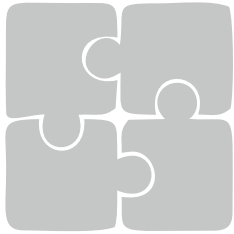
Seamless integration of legacy systems and multiple disparate applications

- Seamless integration with external and legacy systems (to serve as a single application window for business users and management) – letting banks survive with their existing investment in core banking system, accounting software, email application etc and making them communicate with each other

- A single application window for all type of loans C&I, CRE, SBA, Construction Leasing etc, which also satisfies the need for compliance and demand to scale. A single accelerator platform for all business areas

- Automation of sub-processes with respect to prospecting and 3rd party appraisal

- Automatic correspondence with departments handling 3rd party appraisals

- Send e-mails from inside the application to all users

- Feed or extract data into or from any connected application by copying old records from the grid and adding new records (with minimal changes). Eliminate redundant work like rekeying of data in one application that might already be available in another and can simply be extracted

- Facilitate collaboration among various loan departments & reduce TAT
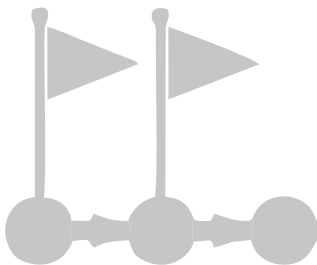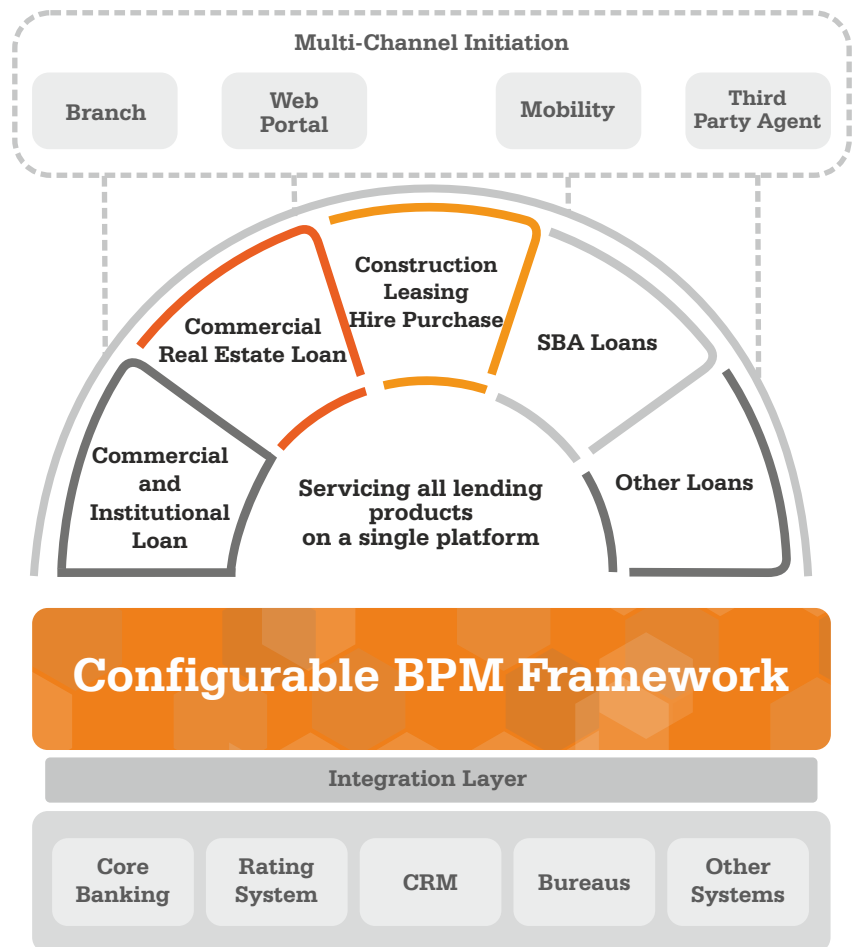
Straight Through Processing with Automated rules

- Making compliance a natural extension of business processes by automatic exception and deviation management

- Proactively complying with local, state and federal regulations

- Scale by defining critical business policies and procedures as rules

- Create rules through logic statements or decision matrices with no need for coding

- Centralize risk decision making process and making it available across sales channels

- Accommodate changing market conditions by quickly modifying centralized business rules or credit policies

- Automatically ascertain the management/promoter's risk, financial risk & collateral risk

- Automate Approval & Authority matrix for the appropriate process flow and routing

Newgen Can Help You Automate End-to-End Commercial Lending Process

Newgen Commercial Lending Framework is based on a configurable and unified BPM framework that ensures standardization across the loan origination process. The solution UI has been designed for unified relationship management on a single screen.

Unified Platform for Commercial Lending

Multi-Channel Initiation

| Branch | Web Portal | Mobility | Third Party Agent |

Construction
Leasing
Hire Purchase

Commercial
Real Estate Loan

SBA Loans

Commercial
and
Institutional
Loan

Servicing all lending
products
on a single platform

Other Loans

Configurable BPM Framework

Integration Layer

| Core Banking | Rating System | CRM | Bureaus | Other Systems |

About Newgen

Newgen Software is a leading global provider of Business Process Management (BPM), Enterprise Content Management (ECM), Customer Communication Management (CCM) and Case Management solutions with a global footprint of 1300+ installations in 61+ countries with large, mission critical solutions deployed at the world's leading Banks, Insurance firms, BPO's, Healthcare Organizations, Government, Telecom Companies & Shared Service Centers.

Newgen's Quality Systems are certified against ISO 9001:2008 and Information Security Standard, ISO 27001:2013. Newgen has been assessed at CMMi Level3.

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