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Workflow: The Key to Efficient Commercial Loan Origination

Today's loan origination landscape is forcing lenders to rethink their workflow engines to adapt to the new environment. Without a strategic approach to designing the workflow engine, lenders will find themselves battling rising costs and inefficiencies in an increasingly fragmented and competitive marketplace.

A Complex Process

Loan origination typically begins with a bank setting up the borrowing entity in the origination software and ends with the loan being either approved or rejected. Throughout this process, multiple teams from different business units, sometimes located in different offices or cities, need to get involved on a selective basis to do specific tasks.

This operational complexity makes it critically important for lenders to come up with a solution that makes the commercial loan origination process efficient and helps them reach decisions faster. A workflow engine can help community banks achieve this goal by providing a “surge capacity” to get loan applications processed quickly and efficiently.

Tracking credit administration, recording exceptions, approving deals, mitigating risk, and monitoring covenants – if done in one system – could empower lenders to accomplish cumbersome lending processes without duplication of effort within 15 to 20 minutes of approval by the loan committee.

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Help is at Hand

Manual workflows are often slow, error-prone, and result in unhappy customers. At the other extreme are completely automated, rules-based processes that are too inflexible to handle exceptions on the fly.

A practical solution is one that combines the best of automation, rule-based efficiencies, and judgment logic. It is a kit with defined roles, responsibilities, and best practices to improve interaction and alignment among teams involved in the loan origination process, without creating extra work for the relationship managers, credit analysts, or approvers.

The availability of templates, step-by-step checklists, and detailed guidelines takes away some variability in performance at an individual level. Not only does this keep everyone in the organization on the same page, it also lends critical consistency to a process composed of multiple tasks and subtasks.

Pre-population of data where possible and reusable workflow components save time while leveraging existing resources. Widgets that allow segmentation of users and tailor tasks to suit the characteristics of each segment ensure unique treatment of each deal instead of a cookie-cutter approach.

Flexibility is Key

Among these lofty goals, flexibility emerges as one of the most decisive factors for evaluating a workflow for loan origination. It is easy to see why. A workflow module offers visibility from deal initiation to loan document generation, and lets participants track hand-offs at each stage of the origination process.

The complexity of the origination process makes it almost impossible to identify all the action steps and chart a complete execution path before a deal. It may make little sense to have a set path of sequential tasks during client negotiation, where the outcome is uncertain and must be negotiated.

A flexible workflow incorporates changing deal dynamics as the participants respond to new information and builds an execution path in real time. In other words, the deal participants should have the option to perform the tasks in more than one order along with the freedom to choose the optimal path.

One example of process complexity can be seen in a bank’s approval methods. In some cases, there are several approval levels – electronic signatures, regional approvals, and the loan committee review of more complex products. To capture quantifiable efficiency gains, as the loan committee reviews, approves, and advances the deal within the same workflow, loan officers should receive and view the reports from their desks.

In contrast is the situation where part of this chain is stored in the core system and available to relevant officers only as a print-out. Further gains are contributed by a workflow engine that allows the approval process to cycle back at any stage to revise work previously performed, as many times as needed.

Data Integrity and Transparency

Another aspect of flexibility is adapting out-of-the-box workflow templates to support change by executing exceptions or tasks to new specifications during runtime. Participants should be able to add more or parallel steps to accommodate new requirements without the need to terminate the existing workflow and start a new one.

Flexibility also requires that the workflow offer integration with legacy and other core systems. From both a regulatory and business perspective, it is important to demonstrate the integrity and transparency of data.

Clearly the data and the process flow must be separated in a workflow, so that both can be carried out without compromising the tracking of each. As lenders see what deals are still Works In Progress (WIP) and what is causing the bottleneck, they can monitor the flow of the deal and approval process while maintaining data integrity.

The right workflow captures data at all critical points of a deal, offering visibility into required information in real time, and in some cases a deal view too. The data captured in the system can then be leveraged to enhance decision support. For example, approvers can see what changes have been made and what impact they will have on key metrics – all in one place.

Fostering Collaboration

Data also helps assess the performance of teams to enable fast action to enhance performance and contain costs. Better capacity planning translates into faster turnarounds and much more responsiveness. This approach helps groups such as spreading teams better manage their SLAs and deliverables while offering more visibility to their stakeholders. Some easy wins can be achieved by recognizing the timeliness of product schedules and where resources fell short.

Leveraging the lender's internal credit policy helps the workflow generate tasks which can drive the process of deal structuring and monitoring in a collaborative manner. Most banks face the challenge of working with distributed resources while following bank-wide policies to minimize business risk.

The objective of working successfully with different teams and remote individuals could easily be achieved through a task creation tool that can oversee interdependencies among tasks, task delegation, and task management.

> The right workflow solution often triggers a bank-wide initiative to redesign its organizational structure and align internal processes.

As challenging as collaboration among these disparate teams is, still more complex is the process of integrating tasks and sub-tasks to contribute to the completion of the deal. A configurable workflow solution with intuitive user interfaces empowers staff to:

» Route tasks to the right team member

» Revoke these tasks in case the designated team member is unavailable

» Reassign tasks to a suitable team member who is available

In this dynamic collaboration model, teams can see for themselves what's new in the workflow, without getting 50 emails about a project.

Communication and Alerts

Communication tools such as shared documents, comments, and notes within a workflow further aid in this collaborative process. The ability to upload documents from within or outside the workflow, including copies of tax forms, accountant-prepared statements, or signed applications – and to converse with fellow team members at a general workflow level as well as at the level of a specific task – lends personal proximity to virtual collaboration. Lending staff can now easily compile supporting documents in a configurable credit presentation to realize greater efficiencies in the approval process.

Another useful collaboration tool is automatic notifications for both critical and non-critical changes being made to the deal by other participants. Triggered by certain events within a workflow, these alerts sometimes serve as validation for ongoing tasks or reminders to perform tasks.

Putting It All Together

The benefits of workflow are measured not only in terms of faster execution of processes but also in being able to track, monitor, and record these tasks to meet review, reporting, or regulatory mandates at various levels.

» Tracking actions within the workflow with an accurate date/time stamp

» Logging of content modification and access history

» Documenting data changes as the deal progresses toward completion

An audit trail tells a clear story about how a loan was approved or what systemic risk the bank is taking, while a workflow report will indicate the degree of completion of the deal.

As the workflow moves across stages of a loan lifecycle, however, constraints must be enforced by the system in the shape of validations to ensure that completed tasks have been assessed and found to be sufficient to move on to the next task.

In addition, the lender should be able to grant different levels to security to users and configure them with ease. Free and unfettered collaboration requires a system that can apply role-based access control while also providing discretionary delegation of workflow tasks and rights. In other words, the user access management (UAM) system should offer automated support for delegating tasks and freedom to modify this task allocation based on well defined, enforceable access rights.

Associating individual users or groups of users with well-defined roles lays a firm foundation for effective user access management. Such a system protects both access and data so that no unauthorized person can tamper with the data of an entity.

Benefits of Origination Workflow

Today's loan origination landscape – characterized by low rates, high competition, new technologies, and the emergence of entirely new players – is forcing lenders to rethink their workflow engines to adapt to the new environment. Without a strategic approach to designing the workflow engine, lenders will find themselves battling rising costs and inefficiencies in an increasingly fragmented and competitive marketplace.

Capturing efficiency gains, even as volume continues to grow rapidly, could deliver faster loan throughput and "time to cash." And as lenders strive to offer a consistent, well-orchestrated user experience with faster turnaround times, an automated credit application could greatly simplify the cumbersome underwriting process.