SMA TECHNOLOGIES

Strategies for Automating the Loan Life Cycle

Table of Contents

Introduction

The mortgage industry has enjoyed a decade-long period of prosperity. Following the housing crisis and subsequent Great Recession from 2008 to 2009, historically low borrowing rates have prompted first-time buyers to purchase homes, existing homeowners to trade up to ever-larger abodes, and millions to refinance their mortgages to low-rate 15-year and 30-year fixed rate loans.

But now, rising rates are dampening demand for all types of borrowings, including mortgages, consumer loans, and commercial and small business loans.
After reaping the rewards of low rates and a hot real estate market that has generated massive refi and new loan business for years, lenders are now facing an extended period of relatively subdued origination volume.

This slower pace of activity makes it an ideal time to review operations and identify opportunities to streamline procedures; eliminate bottlenecks; reduce manual steps; and evaluate the costs of loan origination, servicing, and portfolio management.

Workload Automation Solves the Efficiency Problem

Fortunately, a solution exists that's designed to streamline and build efficiencies into existing lending processes. Workload automation can have a powerful, positive effect on a lender's operations, enabling them to free up resources to drive digital transformation and innovation that will both optimize existing lending processes and meet customers' evolving needs and expectations, while also unlocking the enormous potential of their existing teams.

Workload automation and orchestration offers numerous benefits, allowing organizations to:

- **Streamline or eliminate many manual tasks**
- **Seamlessly orchestrate workloads without adding resources**
- **Enable smart scaling of the business, without adding headcount**
- **Get time back to focus on strategic growth initiatives**
- **Provide IT staff with a better quality of life by eliminating or reducing after-hours, third-shift, and weekend operations**
- **Dramatically reduce or eliminate errors from processing**
- **Achieve better regulatory compliance**
- **Support and improve disaster recovery and business continuity planning practices**
- **Remain competitive in the market**
- **Improve the customer, member, and employee experience**

Through clean, simplified integration with third-party platforms and solutions, workload automation reduces the need for maintaining specialized skillsets on staff, while also helping financial institutions retain their best talent by elevating their responsibilities beyond the mundane.

Workload automation is also adept at bridging highly varied hybrid tech environments, while strengthening compliance and security and improving business continuity planning and testing.

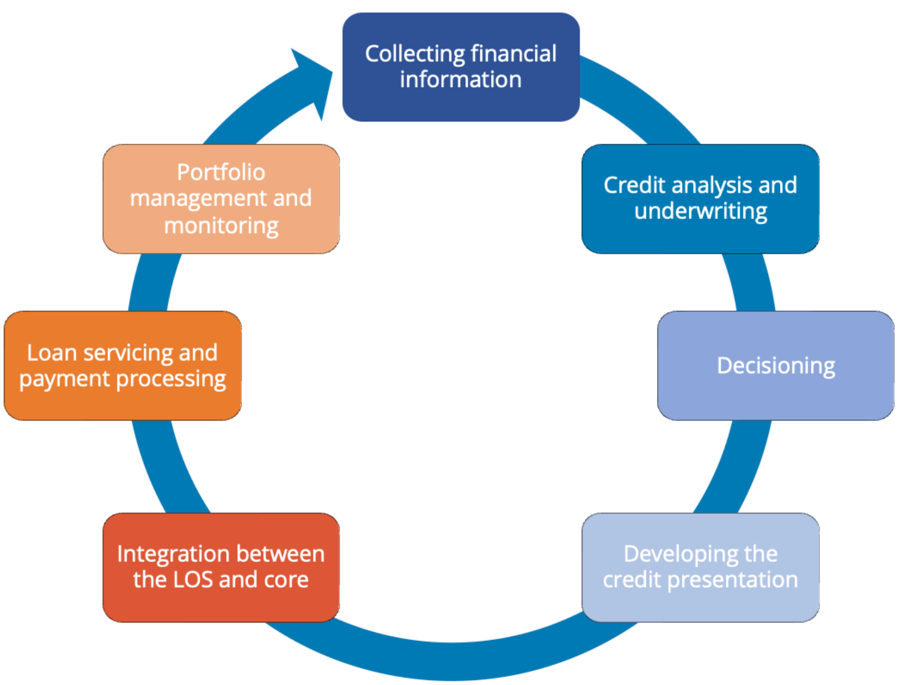
Through today's advanced workload automation and orchestration systems, mortgage originators and other types of lenders can achieve better business intelligence and reporting to enable strategic planning and track results against goals. For example, WLA empowers FIs to easily streamline ETL (extract/transform/load) processes for repetition, so IT can gain better oversight for managing data warehouses and scheduling file movement and data loads.

Many lenders are seeing the benefits of automation in their loan origination, servicing, and portfolio management processes. According to Experian, more than 70% of organizations have adopted AI machine learning to enhance their credit risk management, fraud prevention, and customer experience. In addition, three out of four were in the process of improving or rebuilding their analytics models.

By implementing automation throughout the loan life cycle, lenders will embed greater efficiency, cost savings, and risk management into the process, ensuring they are best prepared for the next upturn in lending activity.

7 Areas Ripe for Automation

Whether your organization specializes in mortgage lending, consumer lending, commercial lending, or all three, the loan process cycle contains ample opportunities to gain efficiencies and benefits through thoughtful automation. Here are some areas to focus on as you begin your automation journey:



1. Collecting financial information

In commercial and mortgage lending, gathering customer data and financial information is a time- and labor-intensive process.

In consumer lending, less borrower information is required for analysis, but shortening the time to decision and time to close are essential to maintaining competitiveness, and institutions must have a smooth, fast, and frictionless process for collecting the borrower's required information and communicating throughout the loan application and decisioning process.

Online customer portals can add efficiency and create a better customer experience. By accepting imaged documents through a centralized portal, applicants will no longer have to use email or snail mail, or physically drop off their documents at a branch, saving time and hassle. In addition, by utilizing one central repository to house all critical documents and information, the risk of documents getting lost in an email chain is significantly reduced, and information becomes easily trackable.

Setting up automated email alerts and notifications to loan officers, loan administrators, credit analysts, and other staff when an applicant uploads new documents or information will help accelerate application processing time. Through automated customer notifications and alerts, borrowers will stay in the know as their application flows through the necessary steps toward a decision and closing.

2. Credit analysis and underwriting

The credit analysis and underwriting stage is typically one of the most labor intensive in the credit cycle, and as such presents a major opportunity for efficiency gains through automation.

The use of a credit scoring model in underwriting can reduce risk and ensure consistency in decisions, while supporting newer credit analysts in their training and development. For more complex deals, including those in commercial real estate and commercial and industrial (C&I) lending, the use of optical character recognition (OCR) and robotic process automation (RPA) can help accelerate the process, by reading commonly used data points and auto-filling fields within the spreading software for further analysis.

Using such automation technology, borrower-supplied financial information can be easily mapped into a standardized template displaying the balance sheet, income statement, statement of cash flow, and tax forms. From there, the information can be spread using the lenders' preferred credit ratios and analysis methodologies.

Automation can also be used during the credit analysis stage to assign initial risk ratings based on sophisticated models such as probability of default or loss given default. This helps in risk management and enables lenders to maintain compliance with the Current Expected Credit Loss (CECL) accounting standard.

3. Decisioning

Once all borrower information is gathered and analysis is performed, it's time for a loan decision to be made. Automation can help accelerate the decisioning process, as well.

For simpler deals or those that neatly meet certain pre-established credit criteria, auto-decisioning can be a useful, time-saving tool. For consumer loans like auto loans and HELOCs, and even for small business loans, auto-decisioning can significantly reduce the time and effort involved in approving (or declining) a loan, bringing the process down to mere minutes. This allows loan officers and other decision makers to focus their time and expertise on more complex or borderline deals, helping to reduce overall risk.

4. Developing the credit presentation

For more complex loan requests, such as those found in commercial lending, decisions typically must be presented and approved by an internal credit committee. To prepare, credit analysts must prepare a credit presentation with several sections containing the financial spreads, a narrative providing background information on the applicant and guarantors, and a decision recommendation.

Significant time can be saved by utilizing stock credit presentation templates for the most typical loan and borrower types, and by auto-filling financial and account information from the loan origination system (LOS) and/or core system. Automation can reduce the efforts of credit analysts and loan officers, enabling faster credit committee decisions and allowing staff to spend more time servicing their borrowers and prospects.

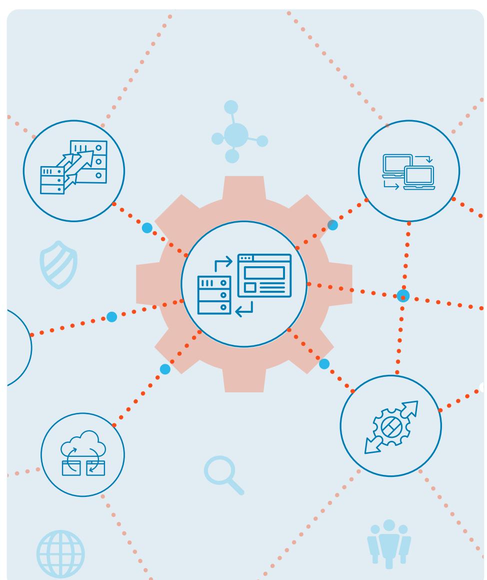
5. Integration between the LOS and core

Most lending institutions rely on a loan origination system to accept, analyze, decision, and process loan applications. In fact, many use multiple separate LOS solutions to serve various lines of business, such as residential mortgages, commercial loans, small business loans, and retail or consumer loans.

Moreover, while most of the steps involved in loan origination and approval reside within the LOS, once the loan is closed, the loan and borrower information must be transferred to the bank's core processing system as the accounting system of record.

For repeat borrowers, it's also imperative that data from existing loans and deposits can be pulled from the core system into the new application within the LOS to ensure accurate analysis and a comprehensive understanding of the borrower's relationship with the bank.

Through workload automation and orchestration, virtually all manual steps involved in coordinating and validating data across multiple systems and platforms can be eliminated. In this way, lenders can ensure optimal data validity and accuracy, reduce or eliminate data entry errors, and improve reporting and tracking.



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6. Loan servicing and payment processing

In loan and mortgage servicing and payment operations, workload automation can improve the borrower experience and save significant processing time in the back office.

For example, by automating critical daily and monthly mortgage processes, and employing a direct application programming interface (API) between its mortgage LOS and core processing systems, Achieva Credit Union has captured significant time savings, with daily processing that's up to 60 times faster and monthly processing that's up to 24 times faster (see below: "Achieva Credit Union Achieves Efficiency Gains Through Mortgage Processing Automation").

7. Portfolio management and monitoring

A final area where automation has made significant inroads in recent years is loan portfolio management and monitoring.

Particularly in commercial lending, once a loan is originated and booked, it needs to be monitored for changes in condition, missed payments, variations in collateral valuation, and covenant and policy exceptions.

In addition, for all loan types, lending institutions are required to monitor the overall health of their portfolio over time.

Traditionally, such portfolio management and monitoring tasks were performed manually, with tracking done through spreadsheets, and borrower requests to provide updated information and financials sent through email or the postal service.

Today, automation has brought a high degree of efficiency to portfolio management, allowing lenders to upload and file new documents and information seamlessly, analyze changes in condition automatically, and run portfolio metrics through easy-to-view dashboards that provide key data points in real time.

Achieva Credit Union Achieves Efficiency Gains Through Mortgage Processing

Achieva Credit Union has been using FICS® in its mortgage department for several years. Since mortgage processing ran separately from other key credit union processes, key data had to be transmitted from FICS to the Credit Union's core system for proper general ledger (G/L) recording and reconciliation, as well as inclusion on members' account statements. The legacy process was highly manual, resulting in a slower reconciliation process.

"Mortgages ran the payment sweep right in FICS via a daily process," says Joseph Spangenberg, Senior Application Administrator at Achieva Credit Union. *"We had very minimal automation at that point, which only allowed us to pull a mortgage loan payment file out of our core and send it over to the mortgages team. They would do everything inside FICS, pass us back a G/L file, and we would import it into our core. It was a lengthy process that took roughly five hours a day to complete, and it tied up needed resources."*

Because processing was occurring a day behind, the department had to wait to process payments or post new loans as the FICS system updated.
After implementing OpCon workload automation in its critical daily and monthly mortgage processes using the FICS API, Achieva has captured significant time savings, with daily processing that's up to 60 times faster, and accelerated monthly processing that's up to 24 times faster.

"The time savings has been absolutely phenomenal," Spangenberg says. *"Our daily payment sweep is running between five and seven minutes now, which is down from five hours. And our month-end processing, which previously took an entire workday for the mortgage team, now takes just 20 to 30 minutes. This has produced the biggest time savings we've had from any implementation project."*

Achieva has also increased its ability to service members faster. With automated payment sweeps facilitated through OpCon, the mortgage department can run FICS on current day, and no longer needs to turn off real time access (RTA) during the business day. The result is more accurate, up-to-the-minute loan records and better member service.

"We don't want to turn RTA off during the day because it causes more payments to batch," Spangenberg says, *"which means members are waiting for their payments to post until the next day.*

"It's a member service issue," Spangenberg adds. *"If you're working a day behind, you have to let the mortgage department kind of catch up. Whereas now we can run the automated payment sweep through the API off hours, which allows the mortgage team to service loan payments, generate notices, and handle other member service tasks on a day-to-day basis, when they should be serviced."*

Conclusion

To achieve the goals of operational efficiency, regulatory compliance, risk mitigation, and unprecedented visibility into their operations, today's lenders need a comprehensive workload automation platform that goes beyond traditional job scheduling software. They also require an easy-to-implement solution that provides full orchestration, can be rapidly deployed, and offers 24/7 service reliability through the support of a world-class, client-first service team.

Workload automation and orchestration is a solution designed to help lenders deliver superior borrower and employee experiences and get time back to focus on strategic and growth-oriented initiatives in a competitive industry. For the modern lending institution, it's needed now more than ever.

To schedule a demo of the powerful OpCon workload automation solution and begin your loan origination and processing automation journey, contact the financial services automation experts at SMA.

[1] Experian (2021). Global Insights Report September/October 2021