A Paradigm Shift: Digital Lending in the "New Normal"

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In response to the unprecedented COVID-19 pandemic and subsequent CARES Act, the rate of adoption and utilization of digital lending technology on behalf of borrowers and lenders has increased dramatically. Look no further than the need of small businesses to provide their IRS Form 944 online as part of the Paycheck Protection Program.

When the sudden increase in the need for small business liquidity occurred, lenders who normally worked in close proximity to their teams suddenly found themselves working remotely, causing an unprecedented disruption to traditional lending processes and staff coordination—possibly temporary, or perhaps permanently. Chief Lending Officers are tasked with maintaining adherence to lending policies, procedures and regulatory compliance in this "new normal" while simultaneously maintaining loan volumes. As businesses begin to reopen and stay-at-home quarantine orders are lifted, loan demand will surge, along with unprecedented challenges in meeting that demand. Many thought leaders envision a new normal that differs dramatically from life prior to the COVID-19 crisis.

Usher in the New Paradigm – *Digital Lending*

Good news: technology available today allows borrowers to securely initiate and submit loan applications online 24x7 and allows lenders to work remotely and securely from any location. Using technology, lenders can quickly evaluate a far greater number of loans and evaluate their creditworthiness, oftentimes in minutes versus days, as compared to traditional processes. Digital technology can exponentially increase the speed of underwriting and back office automation, allowing banks to meet dramatic surges in loan volume and provide rapid responses to credit inquiries from borrowers—while maintaining strict adherence to the bank's established policies and regulatory compliance. This is accomplished using secure cloud-based platforms that permit the use of any device, anywhere, anytime for both borrowers and lenders. Imagine a world where the window to accept applications for credit never closes!

Further, imagine a dramatic increase in the number of applications while having technology that immediately determines which applications meet, exceed or fall short of established credit criteria for each loan type offered online. Loan documents are provided electronically, e-signed and returned for processing, funding and booking to core systems, and when necessary, multiple users can work on individual deals simultaneously. A comprehensive enterprise lending platform also includes embedded financial analysis and spreading tools. All work is saved and warehoused in a secure environment for audit and compliance purposes and can be exported to any file format at any frequency. As credit quality is expected to wane in the near-term, Chief Credit Officers can rely on technology to quickly evaluate bankability of a greater number of applications against existing credit policies.

Improved Process Management through Measurement

It was Dr. W. Edwards Deming who stated, "if you cannot measure it, you cannot improve it." Digital lending technology provides those responsible for profitability with the process optimization tools and key performance indicators to measure performance against goals through real-time reporting and monitoring. Configurable digital platforms facilitate adherence to established lending and credit policies while significantly increasing loan application capacity. Loan review process is streamlined—lenders can communicate with borrowers electronically to request necessary documents, greatly reducing the time and expense associated with traditional manual processes.

Affordability and Efficiency

As with any capital expenditure, there must be a commensurate return-on-investment (ROI). Traditional small business lending processes are inefficient, cumbersome and costly. On average, some studies have determined it costs $3,000-$5,000 to underwrite a small business loan, comprising 28-30 manual tasks which requires several weeks to complete. By comparison, digital lending reduces the underwriting and processing cost per loan to $600-$800 each, reduces individual tasks to 4-6, and reduces response time to applicants to mere days or hours versus weeks. The result is a significant decrease in cost, decisioning and processing time, resulting in *more-profitable* loans through the use of technology.

When comparing digital lending technologies, be sure to ask the following questions:

- Does the technology provide options for deployment, with a choice of either (a) an online-only system primarily designed to take applications with a low financial investment to implement, or (b) a full loan origination system which automates and streamlines the entire application and lending process?
- Does the platform efficiently manage covenants and exceptions? That is, does the system include these as selections throughout the underwriting process that will consolidate automatically at the end, rather than a two-step process of completing the underwriting and then adding covenants and exceptions afterwards?
- Does the platform provide an overall status overview per loan to quickly see where the application is in the underwriting process, with an "at-a-glance" capability?
- Is the platform designed as a self-contained workflow where nothing needs to be done externally and where everything associated with the application is housed in one (digital) location?
- How long does the complete lending solution take to be implemented?
- Does the platform allow filtering of in-process deals "at-a-glance" by role?
- Does the platform utilize the client's specific underwriting standards for each specific loan product, or does it force adoption of the system's embedded underwriting standards?
- Is the platform highly configurable? Does the system adapt to client workflows and process or does the system require banks to adapt to the technology?
- Does the platform provide IRS integration for Form 4506T (IRS tax transcript request form) when applicable for certain loan types? Or does the platform require manual intervention on behalf of the borrower and/or lender when submitting and receiving tax transcript information?

Increases in profitable small business loans are possible through the adoption and utilization of technology that ensures adherence to established criteria and policies while delivering exceptional banker and borrower experiences. Satisfied users translate into increases in net-promoter scores, profitability of portfolios and productive lending staff.

As you may expect, the adoption of online technology is growing at an ever-increasing rate! This is a curve that will not be "flattening" anytime soon.

To learn more, we invite you to visit our website or contact us www.myvelocity.com/akouba