Four Keys To A Better Lending Process

No Going Back To Business As Usual

By c. myers corporation

When it comes to finding a strategic direction toward a brighter future, there can be no going back to business as usual—especially when it comes to lending.

Increased lending is at the top of the wish list for many credit unions. If a credit union could bottle the revenue generation found from loans, there would be few worries of recovering from the recession. If loan generation has become one of the top priorities at your credit union then it's time to look within. Building sustainable processes from the inside out could:

- Eliminate time wasted from application to funding, causing loans to close faster and with less operating expense
- Increase the number of viable applications
- Increase funding of approved loans

Each credit union is unique. There are a multitude of variables that affect decision-making processes including market, membership, asset size and skill set. Your credit union should not consider the following suggestions as a blueprint but rather as a conversation starter. Below are four keys to a better lending process that could help your credit union become a lean, mean, lending machine.

Key 1: Count The Right Business Every Day

In May 2012 we wrote a c. notes article titled Thriving In A World Of Shrinking Margins. We won't rehash it here, but the point of the article is how beneficial it is to count the right business every day. There is valuable decision information that can be mined in the lending process, if only a credit union recognizes the importance of doing so.

For instance, can you answer the following questions?

- *What is the total number of loan applications received in the past 12 months?*
- *Of all the applications, what percentage was approved?*
- *Of those approved, what percentage was funded?*
- *What are the top five reasons approved loans do not get funded?*
- *What are the top five reasons for loan denials?*

Every application is an opportunity to add a loan to the books. Try to look at how many opportunities you have compared to how many of those opportunities are funded. This will help you with the next step, which is determining how to increase the number of funded applications. Your analysis will be even more beneficial if you review the results over a period of time, like the last three years.

Below is an example of what this analysis might look like:

	Apps Received	Apps Approved	Application To Approval	Apps Funded	Approval To Funding	Application To Funding
2009	3680	1397	38%	1294	93%	35%
2010	3579	1102	31%	983	89%	27%
2011	2961	1189	40%	911	77%	31%

If your credit union had these results, do you think it would be helpful to know that over the last three years, of all the applications your credit union reviewed, about two thirds each year **did not** result in revenue production? Once this information is understood, a series of "why" questions begin.

On a more granular scale, your credit union may find it important to know how many applications you receive on an hourly, daily, weekly and monthly basis. For instance, do you see opportunities come in during lunch hours, on Fridays or over the weekend? Answers to questions like these may result in schedule modifications and more focused effort to develop efficient processes.

If you don't see volumes of applications come in during typical non-business hours dig deeper—is it because members aren't making purchasing decisions during off hours, or is it because you've trained your members that you are not open for lending on Saturday afternoon (for example) so they go elsewhere? When is the last time you visited a dealership on the weekend to observe traffic? Answers to these questions might impact your opportunities for funding loans.

By counting the right business every day you can take some of the guesswork out of your lending process and more sustainably manage the variables that are within your control.

Key 2: Act Like A 5-Year-Old And Always Ask "Why?"

The bane of good decision-making is lack of information. Credit unions often miss out on collecting valuable knowledge because they do not have resources dedicated to analytics. This may be because the credit union does not see value in spending time collecting the information or it may be because the credit union does not know which questions to ask. What they may not realize is that asking the right "why" questions in the beginning could lead to greater efficiencies and saving time in the end. It can also result in increased revenue within the credit union's appetite for risk.

For instance:

- *Why did a member choose our credit union for their loan?*
- *Why do we receive more loan applications via ___ (e.g., phone, website, branch, etc.)?*
- *Why are applications low?*
- *Why is our funding ratio low?*
- *Why do we fund a lower percentage of "A" paper loans than "C" paper?*

Understanding the answers to the above questions can help the credit union develop a list of the top priorities related to loan growth.

The important thing to remember about answering a "why" question is that assumptions are not allowed without information to back them up. It can be easy to assume why a trend is taking place. However, doing so means your credit union is trying to operate with a "business as usual" mindset and you may be missing vital information to help your credit union succeed. Once the "why" questions are answered (based on the information gathered), the credit union can develop viable options for *"what do we do about it?"* questions.

Key 3: Be Quick To Respond

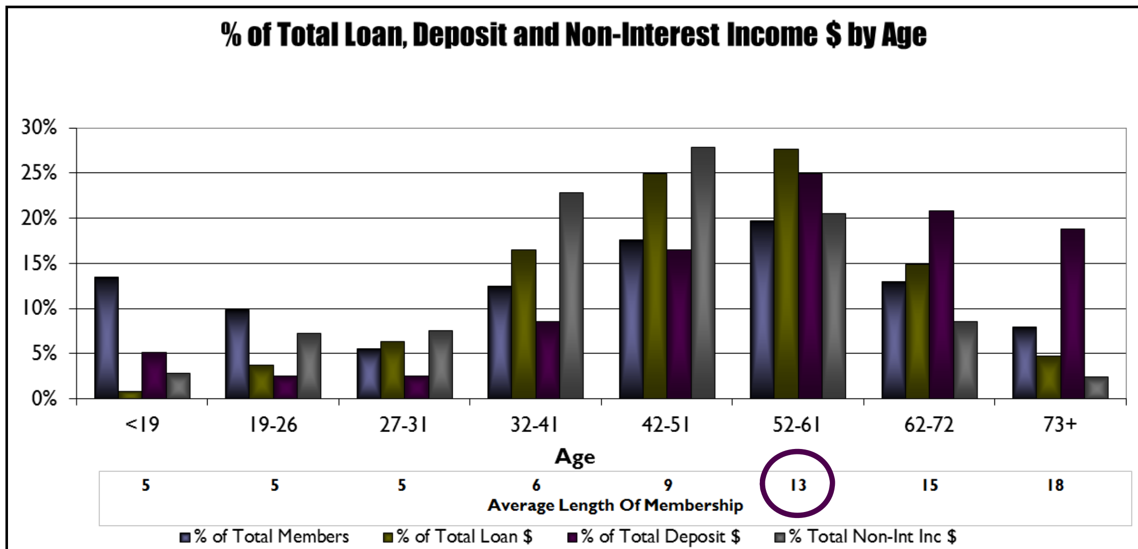
How is your credit union operating its lending queue? Many credit unions subscribe to the first in, first out theory. That means each application is handled based on the order it is received versus the likelihood to be approved quickly. How you decide to manage your queue depends on your objectives and target market. For example, it's not uncommon for members with average or low credit scores to fund at a higher rate than members with great credit scores. Members with great credit scores often have more options for competitive rates and are less likely to wait around for an approval. Members with average or low credit scores are more likely to wait for approvals before exploring other options. If your target market includes members with average or low credit scores this may work for you. But if you are trying to target members with higher credit scores, some changes to your response times may be necessary.

Also, think of a loan application as a trauma patient visiting an emergency room. The emergency room prioritizes its patients and proceeds from there. Credit unions can do the same thing—if a priority application doesn't receive urgent attention, it will flatline. Therefore, your credit union may need to train staff to be a unified front when it comes to receiving and responding to loan applications in a timely manner. This goes back to the approval-to-funding discussion. How long is a member waiting before they receive a response on their application? For instance, if the member goes to a dealership on a Saturday night and finds the perfect car, are they likely to wait until Monday to see if you've approved their car loan—or did their application flatline? We have found that the credit unions achieving success have fast response times. If your credit union is not yet there, what do you need to put in place to get your staff on board so that this can become a priority?

Key 4: Know Thyself

We sometimes find credit unions that do not have a good handle on their membership. A key to creating better lending processes is to understand your target market. This is vital when creating opportunities for loan applications and can help guide other decisions along the way.

For instance, below is an example of a demographic study. It shows the participation of members by age. The graph also shows the average length of membership for each age group:



We often hear credit unions say they want to target youth because, if they become members at a young age, the credit union will have them for life. One important question each credit union needs to answer is, *how do we define youth or younger members*? Is the definition less than 19? Less than 26? Less than 30?

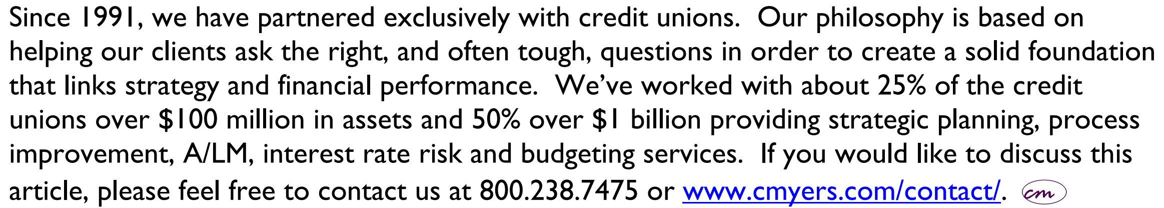
What is interesting is that the average length of membership for this credit union (in the graph above) is relatively short. For example, the age bracket 52-61 shows the average length of membership to be 13 years which would indicate that, on average, this group joined the credit union when they were 43 years old.

Of course this leads to more "why" questions. For example, *why focus on attracting younger members if the information shows that they don't turn into a contributing member for life?* Another is, *why don't we have more loan volume from members 19-26? Is our product offering and pricing not attractive to this group?*

Effective Processes

This brief article merely scratches the surface of what can be done to improve allocation of time, energy and money. Regardless of economic conditions, proactively seeking ways to increase productive business, daily, must become habit—it is one of the keys to remaining relevant long term.

About c. myers



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