LENDING BUSINESS INTELLIGENCE:

WHY IT IS YOUR EARLY WARNING SYSTEM

There is a lot of focus on data analytics these days. Credit unions have vast stores of raw data, but turning it into something providing business intelligence can be a challenge. And the fact that the possible uses for all that information are almost limitless can be overwhelming.

> **Business Intelligence | biz-nəs (-nəz) in-ˈte-lə-jən(t)s**
>
> *1) The transformation of raw data into actionable decision information*
> *2) A form of alchemy, sometimes mystical and occasionally magical*

We've taken some real-life examples from our lending business intelligence work to bring this sometimes fuzzy world into focus. These examples come from our Interactive Loan Production Analyzer (ILPA), which takes data most loan origination systems already have and provides an easy way to visualize what is happening and why. In other words, these are examples of turning data into business intelligence.

Most credit unions report on lending metrics, such as pull-through rate and approved rate, and some also report on turnaround times. While useful, these high level lending metrics are just scratching the surface. Ideally, the intelligence at your fingertips should enable you to drill down into the whys – why the pull-through rate is declining or why the turnaround time is increasing.

True lending business intelligence can provide an early warning system for problems that are brewing, help pinpoint the sources of the problems, provide decision information for staffing and marketing, and lead to better decisions and a stronger bottom line.

Let's take a look at two case studies: one where lending business intelligence helped resolve staffing issues and another where a damaging trend was identified (and corrected) at an early stage.

CASE STUDY: STAFFING ISSUES

The credit union in this example had specific goals to increase the dollars of direct auto loans funded. In addition to a higher profile marketing presence, they narrowed in on a few key areas to help accomplish the goals:

FOCUS ON	RESTRICTIONS
Improve staff scheduling	No additional staff
Increase in speed of loan decisions	No additional overtime
Increase in percentage of approved applications funded	

From their lending business intelligence, management had already identified two main issues that needed to be addressed:

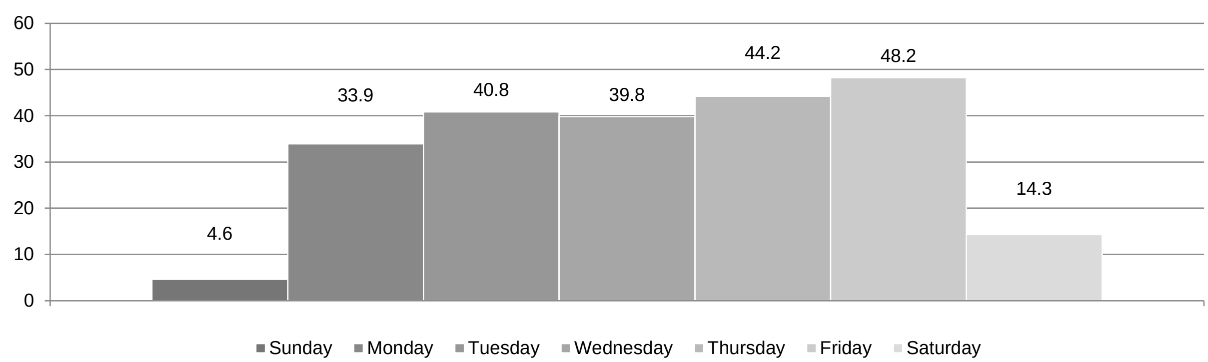
- ➔ Inadequate staffing during busy times
- ➔ Long decisioning times for loan applications

IMPROVEMENT
in these two areas was critical for success

From test marketing that had been done previously, credit union management knew they would see an increase in applications in the desired credit tiers once they ramped up the marketing. They also knew a significant number of the applications would come in between Friday afternoon and Sunday evening. Management used this information to plan and staff appropriately, so the additional applications would help them reach their goal, rather than cause a bottleneck, increase decisioning times, and provide a poor member experience.

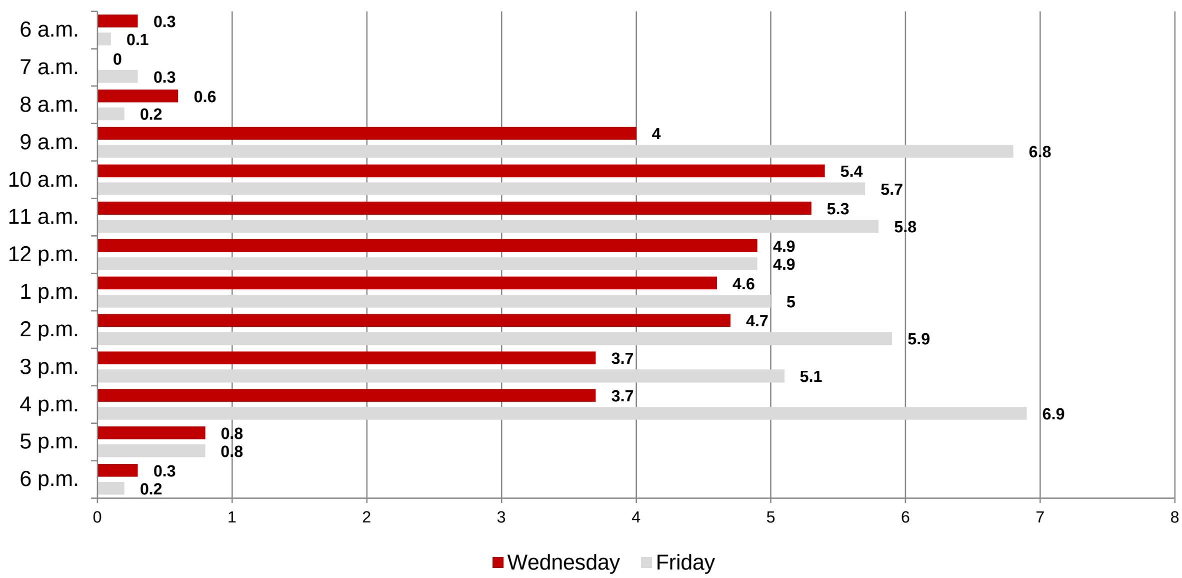
Once the new marketing campaign was in full swing, the average volume of loan applications received increased for every day of the week. Applications received from Friday to Sunday increased by about 40 each week, which is significant for a $300M credit union – but these principles apply to any asset size.

Average Loan Application Volume by Day



The credit union knew that staffing for weekend hours needed to be addressed. Before the marketing campaign was launched, there was already a good deal of unplanned overtime on the weekends, which was hard on staff. Before making the problem worse with higher volumes, they relied on their business intelligence for answers.

Average Applications Received by Time of Day



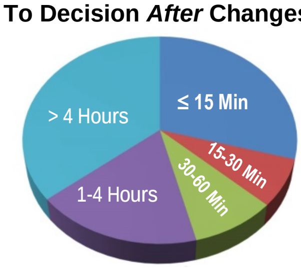
By looking at the time of day applications were coming in, the credit union management offered some flex scheduling to better accommodate the flow of applications, as well as cover weekend days more effectively. For example, they found far more applications came in later in the day on Friday than on Wednesday. This drill down into the information resulted in some permanent schedule changes that actually helped reduce turnover, because weekend workers were not as overwhelmed and staff was better able to plan their time.

The credit union cited the staffing changes as one of the most important factors in their successful increase in funded loans. They also made some other process improvements in areas their lending business intelligence had highlighted.

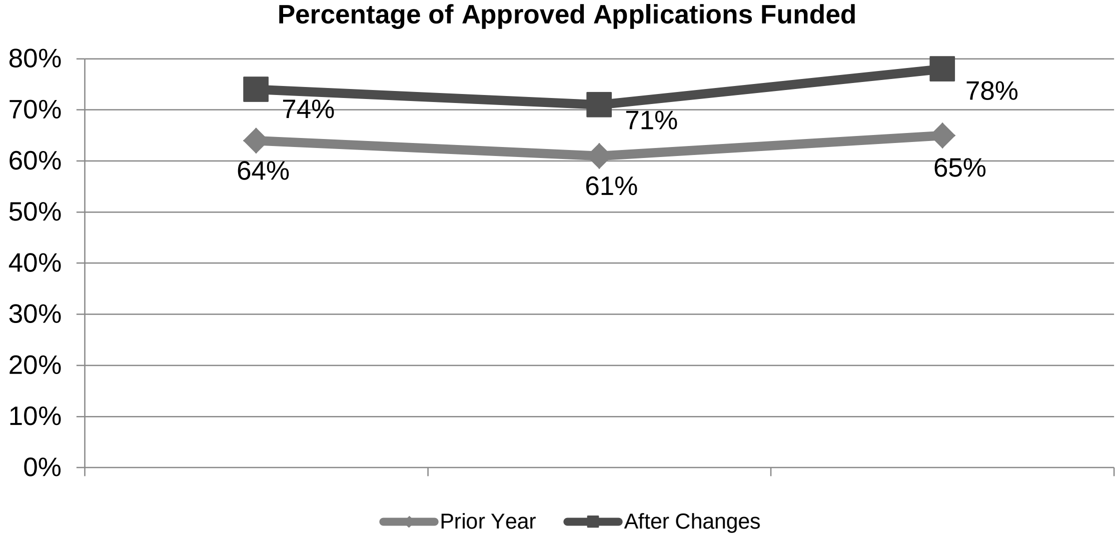
Before making the staffing and other process changes, the credit union was decisioning 28% of the direct auto loan applications with credit scores of 680 and above in 30 minutes or less. The goal was to increase that metric to 35%. Faster decisions typically equate to higher funding ratios of approved loans.

Time From Application Creation To Decision *Before* Changes:

Time From Application Creation To Decision *After* Changes:



After staffing changes and other improvements were implemented, the credit union pushed the percentage of applications decisioned in under 30 minutes to 37%. So even with increased application volumes, they were able to make the decisioning process faster for their members. This led to an increase in the percentage of members that said "yes" to their loan offers.



The credit union is now reaping the benefits of funding approximately 10% more of the approved direct auto loan applications with the same staff and less overtime. For this $300M credit union, assuming an average $15,000 loan, the 10% increase equates to $5,400,000 more loans funded each year. For a $3B credit union, it could be $54,000,000. Having quality lending business intelligence makes it much easier to identify areas of friction and monitor the effectiveness of any changes.

CASE STUDY: IDENTIFYING A DAMAGING TREND

Managing the biggest revenue driver for any business is important. Part of managing is recognizing not only the obvious trends and changes, but also the subtle shifts and anomalies that could have significant impact on the credit union's profitability. The ability to see and understand those subtle shifts creates an early warning system, enabling decision makers to easily drill down to understand why changes are occurring and react quickly to prevent more lost opportunities.

> *The ability to see and understand subtle shifts*
> **CREATES AN EARLY WARNING SYSTEM**

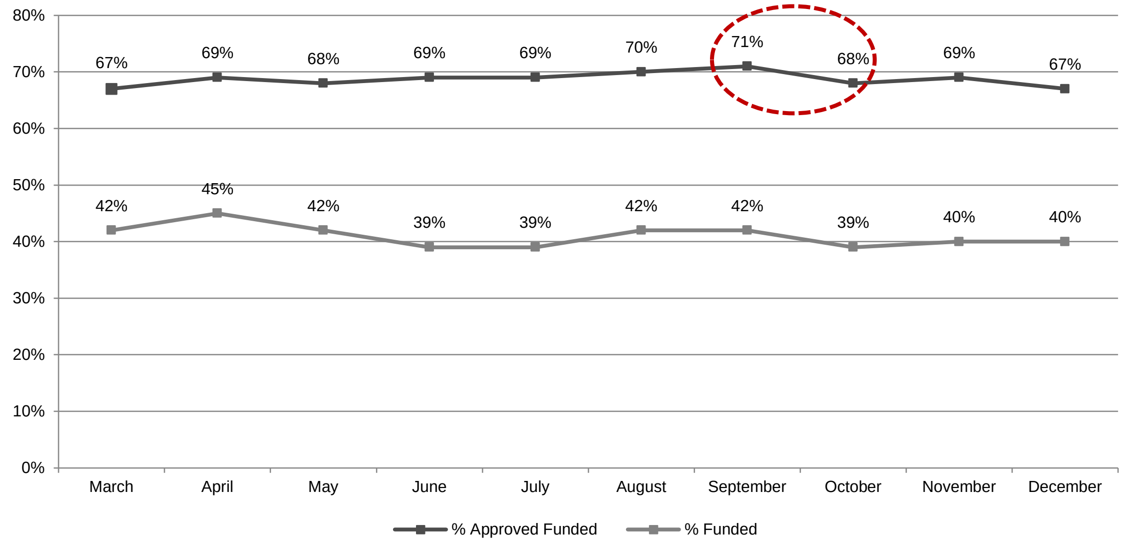
In this example, the credit union was looking at direct auto lending and could see that the percentage of applications funded was relatively stable. They could also see that the percentage of approved applications funded dipped 3% from September to October.

Is a 3% drop cause for concern? For this credit union, which is $1B in assets, the 3% decline means they funded about 32 fewer direct loans in October. Assuming an average loan amount of $15,000, this equates to $480,000 less in fundings for the month. And if this early warning indicates an ongoing issue, the credit union would miss out on $5,760,000 in loans per year.

Taking it one step further, if the issue progressed from a 3% decline to a 10% decline, the credit union could be losing over $19,000,000 in loan fundings every year.

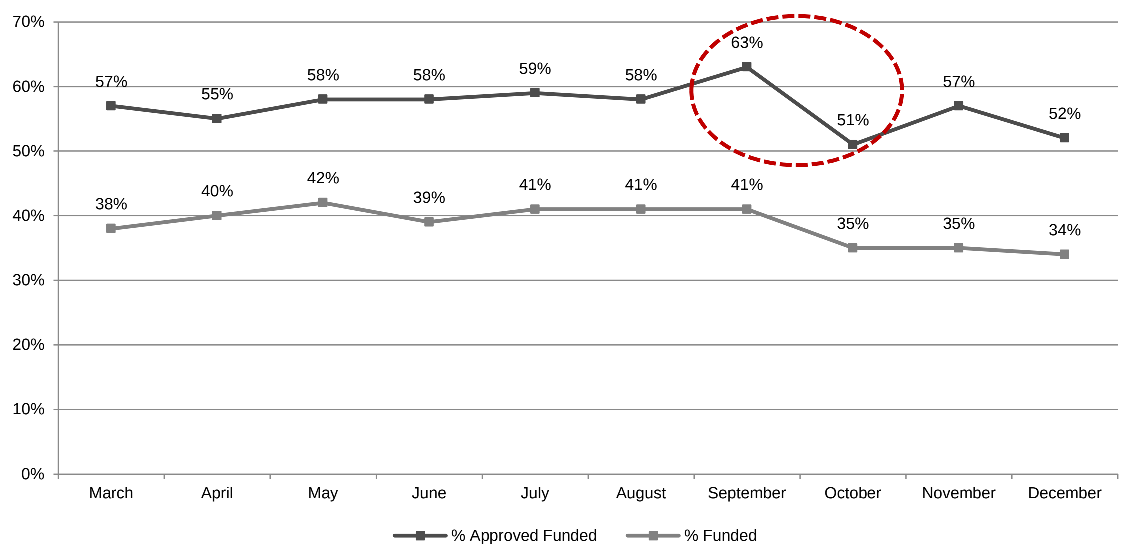
The dollars quickly multiply, so it's important for your lending business intelligence to allow you to easily dig into the possible causes. To pinpoint the source of the dip, the credit union filtered the data by different products and found that direct auto loans, which is a key product, showed a pronounced drop.

Direct Auto – Percentage of Applications Funded & Approved Apps Funded



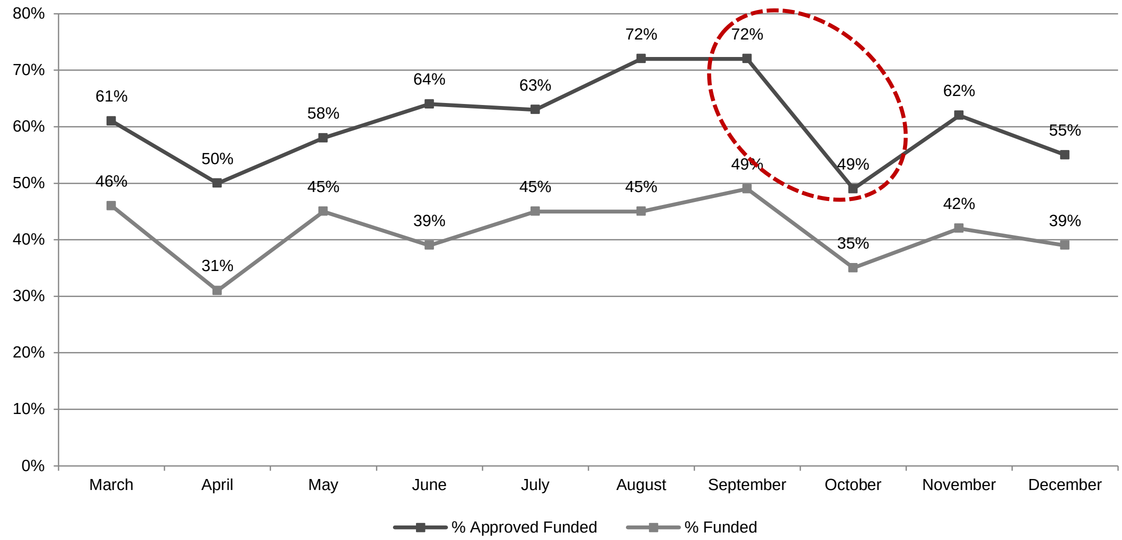
The credit union then filtered by source/delivery channel (branch, phone, web, mobile, etc.), and was surprised to see a 12% drop over the same time period when looking at only the branch delivery channel.

Direct Auto via Branch Channel – Percentage of Applications Funded & Approved Apps Funded



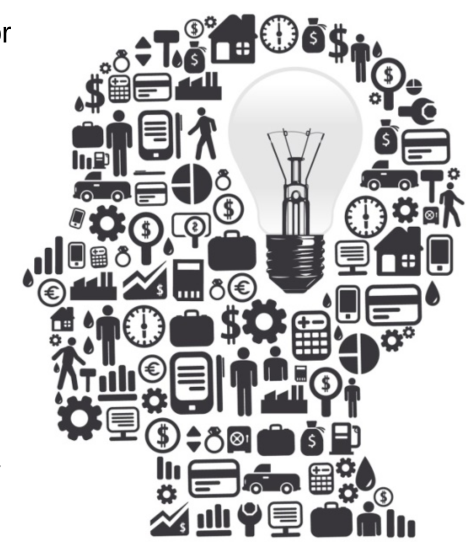
Drilling down further to determine if the drop occurred across all branches, or just a few, revealed that the second busiest branch for loan volume had a 23% drop in percentage of approved loans funded. In addition, this branch had recently improved their loan process and had been making continuous gains, so the sudden large drop in performance was alarming.

Direct Auto for Branch B – Percentage of Applications Funded & Approved Apps Funded



The credit union did a further dive, drilling down to the volume by day and hourly volume by day, which revealed the branch was experiencing high volumes on Mondays and more applications were coming in early in the day on Mondays. Given that staff still had to deal with some of the weekend applications on Monday mornings in addition to the higher volumes, applications started to back up. This lengthened decisioning times and caused a domino effect, resulting in delayed member notifications on Mondays and beyond.

Even without additional volume, bottlenecks can happen for a variety of reasons, such as staff turnover or issues with technology, but the goal of good lending business intelligence is to easily see a variety of views to help with possible explanations. In this case, the pipeline report confirmed the bottleneck and management was able to have a conversation with the branch to find solutions. They decided to begin using the call center to process applications when they needed extra help, which preserved both the member experience and funding ratios.



Most credit unions already have the raw data that generated the information used in these examples, but few are using this data to inform staffing or provide an early warning system. This is just the tip of the iceberg. We shared these examples to help bring into focus what lending business intelligence can look like and how it can help in making better business decisions.

As credit unions devote resources to data analytics, one of the challenges is thinking through and defining what kinds of intelligence you'd like to have at your fingertips. Good design should include the ability to track various trends over time and to easily view information from different angles. Ideally, it should enable you to answer questions on the fly without creating a research project, and while it may not answer every question, it should enable you to ask more of the right questions.

About c. myers

We have partnered with credit unions since 1991. Our philosophy is based on helping clients ask the right, and often tough, questions in order to create a solid foundation that links strategy and desired financial performance.

We have the experience of working with over 550 credit unions, including 50% of those over $1 billion in assets and about 25% over $100 million. We help credit unions *think to differentiate* and *drive better decisions* through real-time ALM decision information, strategic planning, strategic leadership development, project management, and process improvement.