

DON'T OVERLOOK LENDING TECHNOLOGY

by [Steve Brown](#)

It was November 21st, 1980 at 6am. Texaco was drilling an oil test well in the middle of Lake Peigneur in southern Louisiana. Everything was fine for the first 1,227 feet, but then something went terribly wrong. The drilling rig started to shift and water began to drain from the lake. A whirlpool formed that eventually sucked up the \$5mm rig, boats, docks, structures, trees, a parking lot, cars, equipment, 70 acres of land and 2.5B gallons of water. By the afternoon, the lake was drained and Texaco had an environmental disaster on its hands. What happened? While the facts are a little sketchy, it appears drilling engineers overlooked the fact that an arm of a nearby salt mine extended below the drilling operation. As the drill pierced the salt dome, water drained into the giant mine. Remarkably, despite 55 people in the mine at the time and some 20+ people on the lake, the only loss of life was 3 dogs.

While the consequences won't be nearly as tragic, one area community banks may be overlooking is product development and technology on the lending side. While we agree that most of the product and technology focus should be around mobile banking, cash management and customer service; banks that ignore lending could find their current pool of loans draining fast.

There is a whole world of technology around lending still to be developed. This technology, we will quickly add, is largely simpler than deposit technology and comes at a fraction of the cost. We recently brainstormed with a group of banks, borrowers and a technologist and came up with list of 25 projects ranked in order of projected ROI. While we will be sharing the whole list and more details of the technology at our next Tactical Workshop in Richmond VA on November 17th (if you can't make it stay tuned as we will be following up on this topic in the future); we will give you a trickle of the Top 10 in case you want to consider similar projects in the coming years.

They are: 1) Online loan applications; 2) an online lending center that helps borrowers determine what loan structures are best for their capital profile, provides SBA information, calculators and credit approval information; 3) Alerts that tell borrowers when payments are due, have been received, loan status, balance outstanding and financial reporting reminders; 4) Live rate quotes and comparisons of different lending structures on rates; 5) Electronic accounts receivable tools; 6) Ability to securely and automatically upload financial information (tax filings, statements); 7) Automated disbursement request for construction or working capital lines; 8) Online working capital line increase request; 9) Online business banking directory; 10) Automated consulting center where business loan customers receive a certain number of hours of consulting by on-call, bank approved, CPAs, tax accountants, tax attorney's or estate planners.

As you can see, there is no shortage of ideas to help your bank stand out from the competition using technology. Since most banks are awash in deposits, it might make sense for your IT teams to focus on delivering solutions in lending.

As for our drilling mess, we note that Lake Peigneur has been refilled and is doing fine. While it was once a lake with a 3ft average depth, it now is one of the deeper lakes in the state at 3k feet. So, as you go into the heart of strategic planning season, remember the Lake and how a little oversight can turn into a large error. Consider weighing the strategic advantage of devoting more resources to

lending technology to not only gain a competitive advantage, but to reduce costs, make the lending team more efficient and increase customer retention.

BANK NEWS

Opportunity

Community banks seeking to grow are keeping a close eye on Bank of America and its announced plans to close about 750 branches nationwide. No specifics are yet available, but we will keep our eyes open and let you know.

CRE Support

In a good news story for commercial real estate lending, Citigroup reports funds that invest in real estate have attracted the most new money since 2006 and are now at a record level. Investors starved for yield, are putting money into the funds in an effort to earn a return. The surge of investment dollars is expected to add support to market prices for apartments, offices, retail, self-storage and hotels.

Living Wills

The FDIC issued a final rule with the Fed requiring bank holding companies with assets of \$50B+ and nonbank financial companies that the FSOC designates as "systemically significant," to submit resolution plans. The rule impacts 124 financial firms and a separate interim rule requires 37 other banks and thrifts not subject to the bankruptcy code to similar planning. The rule requires a plan be submitted (and updated annually) to regulators to describe the company's strategy for rapid and orderly resolution in bankruptcy during times of financial distress.

Downgrades

As expected, Moody's downgraded the long-term debt ratings of major French banks Soci t  G n rale (to Aa3) and Cr dit Agricole (to Aa2) and kept BNP Paribas under review for a downgrade. The downgrades were driven by their exposure to Greece and "potentially persistent fragility in the bank financing markets."

Foreclosures Increasing

CNBC is reporting that Bank of America sent out 2x as many notices of default to delinquent residential borrowers in Aug than in prior months.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.