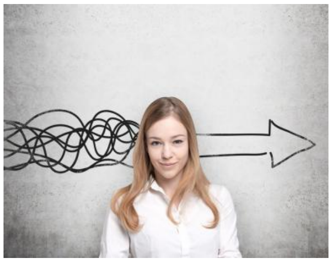

Streamlining The Credit Process

by Steve Brown

Inflight entertainment is changing. American Airlines is the first to eliminate the inflight screen on the seatback as a cost-saving measure on its new 737 MAX domestic planes. Instead, it will offer inflight entertainment on your own tablet, laptop or phone through the newly installed Wi-Fi system. Considering that it costs $3mm per plane to wire and set up an inflight system, not to mention the fuel costs with a heavier equipment load, other airlines may be going the same way soon. In a similar way, community banks may be able to refine their approach to cut costs by streamlining credit processes.

Everyone has seen the movement by non-bank Internet players to streamline lending decisions. Banks that want to compete better in the future are looking closely at their credit processes with an eye toward making the experience quicker, more seamless and more digital for customers.

For many years, banks weren't particularly focused on using technology to shave time off the lending process. After all, a loan was a loan and customers were still coming into the bank in large part. Loans still require human involvement in most aspects of underwriting, but online lenders have made customers more accustomed to doing everything faster and quicker. That has put pressure on banks to speed things up too and adapt.

Consider a $9B Boston-based bank that, as a result of automation, can reportedly approve and close a loan of up to $100,000 in as little as three minutes. We know what you are thinking - who cares, as that is not a CRE loan and the size is pretty small after all. What it points to though is a future that is more digitally inclined. Already, this bank's software pre-assesses the loan eligibility of a wide array of businesses using publicly available data. The bank then reaches out to qualified businesses to make conditional offers, according to a Bank Director story.

To borrow money, existing business customers only need to answer a few online questions: how much they want to borrow, where the money should be deposited and give a Social Security number. The rest of the application prefills with information that's already on file. For non-customers, the process is slightly longer and reportedly takes about 10 minutes or so.

Next, the bank runs a quick check on the loan-seeker's financials. Here they pull the credit score, cash flows and look at existing loan commitments. From there, the borrower digitally signs the documents and the cash is deposited into their account.

A bank in the Northeast is also taking steps to make its loan process more seamless. Just recently, this bank announced a partnership with a digital small business lending solutions provider. This new service, which is targeted for launch mid this year, allows businesses to apply for credit lines and loans on the bank's website. If all works as planned, business owners can expect an answer within minutes and money could be deposited into their account in as little as 3 business days.

These days, banks have an abundant choice of credit origination software that can significantly speed up the loan process. Certainly this requires careful research to ensure a tight fit with processes and adherence with regulatory compliance, but the end result could provide a widely improved process for both the bank and its customers. With all the capabilities rolling out, Moody's estimates that banks may be able to reduce loan approval times by as much as 30% to 40%. Coupled with the other efficiencies these systems deliver, this could be good.

Consider that automation may also help bankers make better lending decisions. After all, many community banks still track exposure by manually updating spreadsheets. Here, such system automation can help bankers make faster and more informed decisions with more data at their fingertips. Over time, community banks may even be able to leverage advanced analytics, data aggregation, use enhanced reporting tools and conduct risk analysis on the fly as may be needed. Soon community bank customers will be using their own phones and tablets to get loans, so might as well start thinking about it.

BANK NEWS

M&A Activity

1) Old Line Bank ($1.7B, MD) will acquire Damascus Community Bank ($311mm, MD) for about $40.7mm in stock or about 1.6x tangible book.

Restructuring CFP

Senate Republicans have introduced legislation that would amend the CFPB Act of 2010 and reduce the CFPB to a 5 member board of directors to serve 5Y terms, with 3 of the members to each serve an initial term of 30 months. On first read it also appears many of the sections that reference "Director" powers have been replaced with the broader group of "Board". It remains to be seen where this bill goes and whether it will be ratified.

Fined

The CFPB has fined mortgage lender Prospect Mortgage $3.5mm for allegedly using illegal kickbacks to real estate brokers in exchange for origination referrals.

Ransomware

Research by IBM finds 70% of businesses infected with ransomware said they paid the ransom in order to regain access to their data and systems. In addition, research from IBM's cloud-based threat intelligence platform found ransomware in nearly 40% of all spam emails sent last year.

Mobile Deposits

A TechChecks survey of US consumers finds 74% of people do not make mobile deposits.

Regulation

Treasury Secretary nominee Mnuchin said he believes banks should be regulated on complexity and activity vs. just their asset size.