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Everyone's
Banking
Platform

8 Tips
to Accelerate Your Loan Origination — and Create a Great First Impression

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Introduction

Loans are a pain. Not for financial institutions but for applicants. Customers don't want a new loan. They want a car, a boat, or a vacation. And what stands in their way? An impersonal, lengthy decision process that they don't understand.

This paper describes eight best practices that will help remove barriers in your loan application process, reduce abandonment and unnecessary rejection, and reduce the cost of processing and approving loans.

A May 2019 American Banker study revealed that non-traditional lenders originate up to 40% of personal, unsecured loans in the U.S. Fintechs offering all-digital service are taking a bite out of the traditional banking customer base. Financial institutions need to respond with the same fintech tactics to compete.
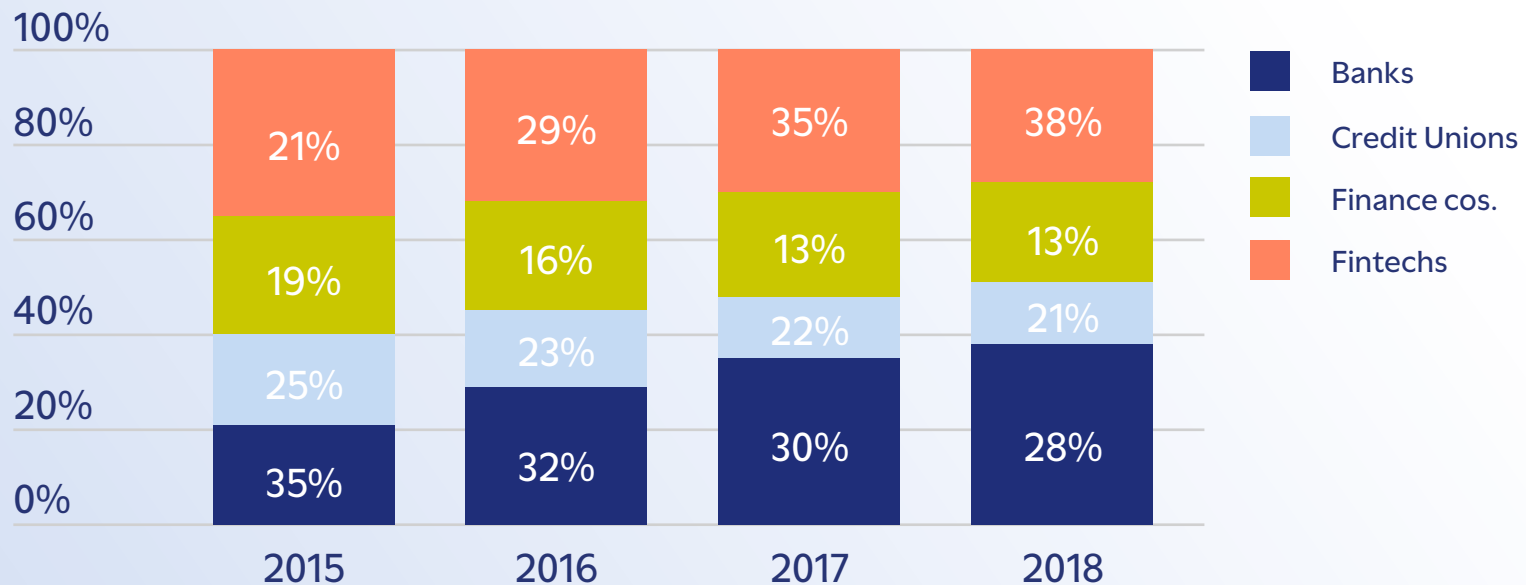
As a banker tasked with growing a profitable loan portfolio, your objective is to maximize the number of approvals from prospects who meet your risk profile. This means three objectives are under your control, without compromising loan quality:

- **Get the application submitted.** To achieve this goal, you must remove barriers and points of friction that prevent applicants from completing a loan application.
- **Optimize data quality.** By ensuring the application is complete — with accurate addresses, dates and supporting documents bundled into the same package — the application has the highest chance for success and instant approval.
- **Give a quick answer.** Employ a process that maximizes approvals and closed loans by providing an automated decision quickly. Use your underwriting guidelines to make the right decision without depending on a manual underwriting process.

If done correctly, your financial institution will achieve the best combination of results — increased application submissions, higher approvals, increased acceptance rates, more new loans, and reduced underwriting and processing costs for each loan. This paper describes eight best practices that banks and credit unions can employ in their pursuit of achieving these objectives.

Once dismissive of fintechs, traditional lenders are now feeling their bite

Online lenders now have close to 40% of the unsecured personal loan market, much of which is refinanced credit card debt. Banks' card portfolios are taking a hit.

Legend:
- Banks
- Credit Unions
- Finance cos.
- Fintechs

	2015	2016	2017	2018
Fintechs	21%	29%	35%	38%
Finance cos.	19%	16%	13%	13%
Credit Unions	25%	23%	22%	21%
Banks	35%	32%	30%	28%

1 Open the Door for Follow-Up

If a prospect shows any interest in a loan, take a few simple yet vital steps to facilitate follow up.

Always capture a prospect's **essential contact information** — name, email and phone number — in the first questions of your loan application before the prospect has a chance to change their mind.

Enable **auto save** to capture each field of your application as it is entered. Don't depend on the prospect to save manually. Incrementally update CRM with this "in flight" application data and automatically notify your sales team of new or updated applications to trigger follow up if not submitted.

Engage an existing customer as soon as they express interest in an additional product. Even if they don't complete an application, your team will already have access to more than enough data to quickly engage them.

Don't assume dropped applications are intentional — sometimes life gets in the way. Phone batteries die, coverage lapses, kids cry and the applicant gets distracted. Don't let that stop you from following up — the applicant might need a gentle nudge to get back on track.

When it comes to follow up, the most important takeaway is simple — **don't wait!** If you have an indication that someone is interested in a loan, use a multi-channel strategy to follow up quickly while the intent remains.

Real-life results:

A mid-sized financial institution achieved a 4x increase in submitted loan applications by pushing abandoned applications to their CRM and call center and following up with personal outreach within 24 hours of the initial interest.

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Maximize Integration & Automation to Ask Fewer Questions

Prefill as many questions as possible to expedite the loan application process. Financial institutions have many options when it comes to prepopulating data:

- **CRM or systems of record** often contain full ID information. If a prospect provides an email address that's already in your system, immediately prefill the known data.
- **Mapping APIs,** like Google maps, can prefill new prospect's street addresses for more accurate, standardized information and less rework.
- **Social Media** shortcuts, such as entering LinkedIn credentials, can prefill an applicant's work history.
- **Consumer Reporting** data such as ChexSystems® can prefill consumer-reporting data to boost applicant quality.

Build your application to search blacklists and other derogatory sources to ensure applicants do not have a negative credit history with your financial institution.

For serious convenience and integration, use aggregation services to create a more complete financial analysis from account history, including regular paychecks and payments. While the customer completes their application, the aggregation service can calculate their financial profile, income and debts in the background to drive an instant decision.

3 Make a Nuanced Decision

Use an intelligent, multi-factor decision engine to give nuanced auto-decisions. Rather than basing everything on a simple metric like a FICO score, consider multiple factors. A holistic decision-making process does not simply evaluate each criterion in sequence.

Sophisticated loan origination and decision engines can accommodate multiple business rules and cases. This effectively automates the process that human underwriters go through when evaluating the non-obvious cases.

The best practice is to allow the underwriters to establish the rules and implement them in an automatic, multi-factor process that can deliver decisions immediately. This allows manually or systematically collected data from the application, applicant, collateral or credit report to be decisioning criteria.

Rather than rejecting an application with a FICO score just below the threshold, establish rules allowing multiple other positive factors to override the lower score and adjust the terms offered. Augment potentially negative factors like a high DTI

or infrequent delinquencies with overriding factors such as history with your financial institution, total deposits, or credit score trends to approve more loans quickly while maintaining underwriting standards.

When it comes to instant decisions, three possibilities exist — approve, reject, or pending, which sends the application to manual underwriting. Multi-factor decisioning can increase the rate of instant acceptances and reduce the number sent to pending. It also allows a financial institution to dig deeper into the applicant pool, approving loans and picking up customers that a less comprehensive decision engine would have rejected.

Automate decisions in a digital process

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If You're Not First, You're Last

The first financial institution to respond gets the business, so don't give your competition the opportunity to close first. Long ago, the process of completing a paper form and taking a trip to a local branch created an upfront investment for an applicant that precluded shopping around for a better offer. Those days are long gone.

A Federal Reserve survey showed that 45% of respondents complained of long wait times for a credit decision from traditional financial institutions, while only 17% had a similar complaint about online lenders.

Thanks to fintech competition, loan shoppers have many choices. This is especially true in an environment of loan and credit card shopping sites, where a consumer can initiate more than one application at a time with minimal effort.

To close the deal ahead of online competitors, you must have a digital auto decision process in place to evaluate the majority of applicants. Seize the opportunity while you have the prospect's attention and provide instant approval and details for the loan. To reach the highest levels of acceptance, be the first to say yes.

5 Don't Scare them Away

Don't scare customers off with a long list of requirements to apply before they start their application — let them figure it out as they go along.

Completing a loan application is already intimidating enough — it's a lot like climbing a mountain. If you knew how high it was from the start, you might never begin. But every time you see the next ridge, you're inspired to keep going because that one might be the top.

Providing a long list of required items before asking for essential information will scare the prospect away. They will take one look at your imposing list, say "no thanks" and look for a simpler, lower overhead application.

Ignore your desire to put the long list up-front, and allow the applicant to ease into the process. If you place easy questions that require zero effort first, the prospect will already have time and effort invested when the questions become more difficult, so they will be less likely to abandon.

Can I apply online?

Before you start your application, let's confirm you can proceed online.

Guidelines for Homebuyers

You can apply online, so long as:

- You're not applying via a specialist scheme, like shared ownership, equity share, right to buy, genuine bargain price or restricted re-sale price
- If you have one, you're not planning to transfer or 'port' your existing Nationwide mortgage deal to the new property
- Your mortgage is for residential purposes only (excluding buy-to-let and commercial)
- You can provide proof of income or - if you're self-employed or a company director - provide two years' of accounts or a valid accountant's certificate
- There are no more than two applicants for this mortgage
- None of the applicants are undischarged bankrupts
- You can provide three years of US address history
- You're not needing to use a foreign currency to support repayment
- You're not applying for our Borrowing in Retirement scheme

This list will scare them away!

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6 Make Manual Decisions Efficient

Sometimes auto-decisioning isn't possible, and an application lands in the pending queue waiting for an underwriter's attention. To maintain the speed and cost efficiency of the process, the underwriter must have the essential information. The chance of achieving a successful outcome drops significantly if the loan package is incomplete and the underwriter has to hunt to find critical data.

Use a digital process for resolving pended applications that provides a comprehensive customer view in one central source. This will give the underwriter easy access to a prospect's lending history, credit scores and supporting documentation, ratios and externally gathered reports. For existing customers it will also include an account history.

To create the most user-friendly customer view, highlight the factors that passed the auto-decisioning process and those that indicated elevated risk. An efficient decision, even if it's not instant, can still be fast enough to get the prospect out of the market.

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Take the Opportunity to Upsell

A loan applicant just provided your financial institution with a wealth of information about their finances and personal balance sheet. Don't just sit on this valuable data or file it away. Use it! This is the time to be proactive and personalize the offer.

Attracting a new customer costs five times as much as keeping an existing one.[1] Providing highly customized financial offers that meet the applicant's exact needs will endear them to your institution and lead to ongoing customer loyalty. Research has shown that when financial institutions increased retention by 5%, their profits increased by 25%.[2]

Using data to predict which products a customer is most likely to buy next is an essential in today's market.[3] While you have the customer's attention and personal information, quickly identify other liabilities, offer to consolidate or refinance existing loans and suggest an amount for their total new payment. Taking these simple steps to engage a customer can lead to significant long-term benefits for your financial institution.

> Fully engaged customers are 23% more likely to spend with your financial institution.[4]

1. Lee Resources. 2010.
2. Reichheld, Fred. "Prescription for cutting costs." Bain & Company. http://www2.bain.com/Images/BB_Prescription_cutting_costs.pdf
3. "The future of customer-led retail banking distribution." McKinsey. September 2017.
4. "Advanced Analytics: Foster Loyal Customers." Gallup. https://www.gallup.com/analytics/214259/customer-analytics.aspx

8 People want a Truck, Not a Truck Loan

Connect the loan to the desired outcome and make it easy to apply when the desire for the product is highest. When the customer sees a truck ad running during a football game, the feeling that they have to buy that truck reaches its peak. Make it simple for them to start the loan process on their phone while they're sitting on their couch. Don't let that compulsive desire fade.

To bring this scenario to life, your applications must be mobile and convenient. As of 2019, 90% of the consumer banking products that customers can apply for online are equally accessible from a mobile phone as from a desktop computer. The difference between mobile and desktop has disappeared, so if you want your loan products to be instantly available to cater to those quick desire-to-buy reactions, your application must be mobile.

Speed is also essential. Allow the customer to start the application immediately. Don't make them download anything or go through a time-consuming registration process. Make it simple, so the only thing they have to do is tap a link to begin the truck loan before the game comes back on.

But what if it's a short commercial break? If you followed the first rule, you will already have their contact information when the game returns and their attention lags. So when your team follows up the next morning with a reminder call and email, they will have a better chance to pick up the process.

Conclusion

If your financial institution implements these eight tips you'll be well on your way to maximizing approvals from credit-worthy applicants. By removing barriers, reducing abandonment, and preventing unnecessary rejection, the efficiency and profitability of your overall loan process will increase and the costs associated with underwriting and processing will decrease. You never get a second chance to create a positive first impression and providing hassle-free loan application experiences alongside quick decisions is the best way to impress today's consumers and build positive and profitable relationships – for life.

About Temenos

Temenos (SIX: TEMN) is the world's leading open platform for composable banking, creating opportunities for over 1.2 billion people around the world every day. We serve 3000 banks from the largest to challengers and community banks in 150+ countries by helping them build new banking services and state-of-the-art customer experiences. The Temenos open platform helps our top-performing clients achieve return on equity three times the industry average and cost-to-income ratios half the industry average.

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