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Technology Changes Security National's Lending Process

By Keith Knudsen and Brandon Baller

Back in the 1990s, when Security National Bank in Laurel, Neb., began using software lending technology, major league baseball players were going on strike, the first Harry Potter novel was just hitting bookstores and the Nebraska Cornhuskers were racking up three national college football titles.

More than 20 years later, it is hard to imagine the “old days” when approving a consumer loan could take several days or even a week.

As a locally owned and managed community bank with \$160 million in assets and five branch locations in northeast Nebraska, the bank prides itself on knowing its customers and providing outstanding service. To that end, the bank processes and manages all its agricultural, commercial and consumer loans, with the exception of secondary real estate loans, with its lending technology, provided by WebEquity.

Speeding Decision-Making

From application to risk scoring through underwriting, the cloud-computing software supports every step in the lending process, making the bank much more efficient. In fact, in about the same time that it takes to get a cup of coffee — five to 10 minutes — it can process a consumer loan application, pull a credit report and make a good loan decision.

From talking to my peers at community banks across the country, the bank believes this level of efficiency is not typical. The loan approval process could require as long as three days or more at some institutions. By having the ability to make credit decisions in minutes, Security National can strengthen its relationships with customers.

The system enables the bank to customize the way it spreads financials for agricultural and commercial loans to meet its needs. To further streamline the loan approval process, the bank reduced its loan application to one page, making it simpler for borrowers to fill out. Because it placed the fields in the exact order as the loan origination software, it does not have to jump across the page to look for pertinent information. Instead, users can go right down the line, from one field to the next, and capture all the information needed to prepare closing documents.

At every step, the bank can ensure documentation and credit decision-making are consistent from branch to branch and customer to customer. Security National can update its underwriting standards and make sure that every lender across all locations follows these policies.

Streamlining the Approval Process

Because the system is Web-based, everyone working on a credit, from the loan officer to the senior lenders and loan committee, can easily access all information residing on the central database, no matter where they are located. All requests for loan approvals are submitted electronically. To reduce turnaround times for larger requests that require additional approval authority, the bank can have a senior loan committee member at any location access the system and enter his electronic signatures and time stamps on the application and credit presentation directly into WebEquity.

Efficiency Highlights

- 5–10 minute consumer loans
- Ag/commercial electronic approvals
- Aggregated/detailed stress testing
- 10 minutes to address examiner request
- ALLL process reduced by 80 percent

The credit committee typically meets weekly to review most other requests. It can pull up the data on a projector in the meeting room. Because members have access to the information ahead of time, they can address any questions at the meeting and quickly arrive at consensus — with less paperwork to shuffle through. Complete recordkeeping and consistent credit presentations are

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ensured. Every write-up includes specific data, from pricing to the customer's profitability history and projections.

Managing Risk

In the wake of the financial crisis, bank examiners are stepping up their regulatory oversight and are recommending that banks routinely use risk management tools to stress test their loan portfolios. WebEquity's Risk Dashboard provides an early warning system to help Security National detect potential risks sooner rather than later.

Some industry experts have warned about the possibility that the agricultural bubble could burst and negatively impact farm real estate prices and agricultural businesses. The bank keeps a close eye on this potential risk because it serves a largely rural and agricultural market. Loans to farms and related agribusinesses make up about 30 percent of the bank's total portfolio.

Security National regularly performs rigorous what-if analyses to determine the best-case and worst-case impact of various changes on the portfolio's risk ratings and determine whether it needs to take proactive steps. For example, how much would farm expenses have to increase before depleting the debt service margin? In the event of a significant drop in commodity prices or land values, how big a shock to the loan portfolio would the bank experience?

This kind of stress testing and portfolio analysis lets the bank drill down from the aggregate level to an individual customer or segment of customers to identify exactly which loans would be at risk of moving from a pass rating to a classified or substandard rating on the risk scale. The risk dashboard reinforces its confidence in the bank's loan portfolio and assures management that the bank never carries risky credits on its books with high-loan-to-value ratios.

The examiners and the consulting firm that performs our loan reviews have been impressed with the capabilities that the software provides. For example, a regulator requested that the bank provide more detailed collateral analysis and trigger dates for problem loans and workout plans. The bank was able to implement these changes in just 10 minutes to provide this information.

Calculating Loan Loss Reserves

Recently, Security National implemented WebEquity ALLL, a cloud-computing solution that helps the bank systematically calculate and accurately manage our allowance for loan and lease losses. By replacing inefficient manual processes and Microsoft Excel with the ALLL software, it has reduced the chance of calculation errors, while delivering significant time savings.

Previously, it would take hours just to pull the loss history data from the FDIC website for the ALLL calculation. With the click of a button, the system now automatically imports this information into the system. All told, the ALLL process used to take four to five hours. Now it can complete it within an hour from start to finish.

When the bank relied on spreadsheet-based processes, it would always run the risk of inadvertently tweaking a formula and throwing off the numbers. Now, it has greater confidence that all its ALLL calculations are accurate and well documented.

By managing all the credits in a single integrated system, the bank is better positioned to manage its entire loan portfolio. The lending software Security National chose to implement is helping it better serve its customers in a constantly changing lending landscape by providing faster turnaround while proactively assessing the ongoing risk of the entire portfolio. **BN**

Keith Knudsen is executive vice president and chief credit officer and Brandon Baller is branch president at Security National Bank (www.secnatbank.com), a community bank based in Laurel, Neb.



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