



WHITEPAPER

Digitizing the Lending Experience

Deliver Speed and Convenience for Borrowers While Driving Portfolio Growth

Meeting Customer Lending Experience Expectations

Many in the industry remember a few years ago when JPMorgan Chase's CEO, Jamie Dimon, warned his bank's shareholders, "Silicon Valley is coming."

It appears he was right.

Online lenders have changed the lending game, improving the application experience to meet heightened customer expectations for convenience and speed. According to credit bureau, TransUnion, financial technology (fintech) companies were originating up to \$15 billion in personal loans as early as 2017—this accounts for nearly one-third of the total U.S. market for personal loans.

The pandemic only increased the urgency for financial institutions to act. Offering low rates isn't going to cut it anymore. They have to rethink the customer experience, from initial interaction to loan origination, and more.

And here's why. Consumers seek funding from online lenders due to the fast, seamless, and oftentimes, paperless loan application process. The online application process typically takes less than 30 minutes, sometimes as fast as five.

Most online lenders have designed systems to fund approved loans within a few days and for basic credit requests, funds can be disbursed within 24 hours. Comparatively, consumers who apply for loans at traditional banks cite frustrations with the "difficult application process" and "long wait for a credit decision," according to the Federal Reserve.

In addition, traditional approaches to small business lending also pose challenges for financial institutions in terms of profit margins. Oftentimes, financial institutions process a small business loan of \$100,000 the same way they process a \$1,000,000 commercial loan, which drives institutions to prioritize high-dollar commercial loans with greater profit margins.

By modernizing the lending process and leveraging technology, financial institutions can reduce the transaction costs for small business loans to boost profit margins and ultimately provide more funding to small businesses.

Despite these challenges, traditional banks and credit unions have a leg up when it comes to rates. Rates for a bank line of credit may be at or below a typical credit card rate, but an online or alternative lender's rate can range from 7 percent to upwards of 25 percent, which means speed and convenience come at a premium. By investing in the right technologies to offer a similar level of speed and convenience at a lower rate, these traditional banks and credit unions can beat online lenders at their own game.

It is crucial to act now. As online lenders develop steady and low-cost sources of capital, these lenders will eventually be able to price loans at rates competitive to those offered by traditional financial institutions.



This guide outlines how banks and credit unions of all sizes can digitize the lending experience, infusing it with speed and convenience to meet customer expectations, while positioning for sustained and profitable portfolio growth.



Making The Case for Digitizing The Lending Process

Although some financial institutions have digitized part of the application process, many still require a visit to the branch or mailing physical documents. Financial institutions that simply replicate the paper-driven loan application process online are doing little to improve the customer experience.

Unfortunately for them, there's now a growing customer segment that are banking digitally, with "a preference for avoiding branches altogether", according to PwC's 2021 Digital Banking Consumer Survey.

Clearly, traditional financial institutions must up their game. **These stats show why a wait-and-see approach is no longer an option:**

25%

of consumers would prefer to open a new account digitally but are unable to do so today¹

69%

of consumers prefer to submit financial documents using digital tools²

UP TO 50%

reduction in "time to yes" with end-to-end digitization of the credit process³

¹ PwC's 2021 Digital Banking Consumer Survey

² The Pandemic's Impact on Mortgage Digitization and Homebuyer Satisfaction, July 2021, Fanniemae.com.

³ How Banks Can Reimagine Lending to Small and Medium-Size Enterprises, May 2022.

Where to Start: Eliminate Friction with Simple, Impactful Functionalities

To offer the convenience today's consumers demand, financial institutions must go beyond converting paper into digital documents and digitize back-end processes as well. **Here are the three key areas to start:**



Minimize Data Entry

One way to accomplish this is by providing pre-fill functionality within the online loan application. This reduces the burden of manual data entry for the customer, pre-filling the loan application with key data that is already on file at the institution. This is supported through integration with the financial institution's core system.

Financial institutions should also leverage technology with a responsive design to minimize keyboard usage. This is helpful for customers who submit an application on phones or tablets. Institutions should also replace input fields with drop down menus to eliminate unnecessary keystrokes and reduce application abandonment. Additionally, eliminate any unnecessary input fields that add to the length of the loan application.



Offer Save And Resume Functionality

To further eliminate friction in the application process, banks and credit unions should allow prospective borrowers to upload supporting documentation without leaving the application.

For applicants who may not have all of their information available to complete the application, offering a Save and Resume functionality is essential. The financial institution can save the applicant's contact details and then follow up with the applicant later, thus mitigating abandoned loan applications.

Lastly, it is critical that banks and credit unions have e-signature functionality for an outstanding end-to-end lending experience. If the borrower completes an application online, why should they have to step into the branch to sign loan documents?



Simplify Obtaining Loan Status Updates

Not only do borrowers want a better, more convenient lending process, they also demand a more transparent process. While online loan applications reduce the need for human interaction, the digitization of a previously manual, high-touchpoint process requires greater transparency. Consumers want to know the status of their loan application and when they can expect to receive a decision, but the onus should not be on the consumer to hunt down that information.

One way to achieve this is through a customer-facing portal that allows borrowers to obtain loan status updates at any time. This allows applicants to easily and securely attach missing or supporting documents right to the loan application at their convenience, even from a mobile device. The increased connectivity eliminates hours of follow up while improving the customer experience and ensuring your customer feels like a partner in the process, not just another number.





Transparent Loan Terms & Costs Help Borrowers Differentiate Offerings

While efforts to deliver faster decisions for loan applicants will help increase transparency regarding the status of an application, there are still ways to boost transparency in the lending process and improve the overall borrower experience.

According to a McKinsey & Company survey⁴, consumers want accurate and unambiguous information about pricing, the time needed to complete each step in the loan process, and their application status in real-time.

Given the multiple drivers of the cost of a loan, including interest rate, origination fees, guaranty fees, and prepayment penalties, it can be challenging for borrowers to fully comprehend the total cost of the loan.

Beyond finding ways to increase connectivity with borrowers during the lending process through tools like customer portals, financial institutions should ensure the terms of individual offers are clear. This will make it easier to differentiate their offerings from competitors.

Likewise, banks and credit unions can make it easier for borrowers to compare offers from multiple lenders. Most borrowers consider at least two offers when seeking funds, but often find it difficult to compare the offers since lenders present the terms of the loan differently.

By disclosing loan terms clearly and consistently, the bank empowers the consumer to better understand the terms of the loan offer. This also provides the bank an opportunity to highlight the lower rate they can offer compared to the rate offered by the alternative lender.

An industry-wide standard for offer presentations would resolve this issue, but for now, individual financial institutions can take steps to avoid jargon and use consistent terminology in their own loan disclosures and provide standard definitions of fees.

⁴[Competing on customer experience in US mortgage. McKinsey & Company. December 2019.](#)



The Time To Adapt Is Now: Customer Experience Transformation Can Get You Ahead Of The Competition

Financial institutions that do not adapt to the on-demand, digital expectations of today's consumers will lose market share to more agile banks, credit unions, and alternative lenders.

Embarking on a digital path and leveraging best-in-class solutions can ultimately simplify workflow, minimize risk and provide customers with a fuss-free lending experience. Forward-thinking financial institutions that recognize this will be able to solidify their position as a trusted provider.

Initiatives will require effort, but given advancements in current technology, delivering a streamlined and more transparent lending experience at a competitive price point is attainable for institutions of all sizes.

Ready To Streamline The Lending Process and Ramp Up Your Customer Experience?

Baker Hill NextGen® is a cloud-based, single unified platform with modern solutions to streamline loan origination and portfolio risk management for commercial, small business, and consumer lending. It also delivers sophisticated analytics and marketing solutions that support business decisions to mitigate risk, generate growth, and maximize profitability. It's why more than 500 banks and credit unions trust the experts at Baker Hill to help them work smarter, make sound credit decisions, and drive more profitable relationships.

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