bakerhill

WHITEPAPER

The Big Breakup: The Problem Isn't You, It's Your Spreadsheets

“

A lot of times, people don’t know what they want until you show it to them.”

—Steve Jobs

Bankers are reluctant to embrace new technologies, such as digital loan origination platforms, because they feel comfortable with the old process. They also struggle to believe that new technology is superior to the old, time-tested way of doing things. Read ahead to learn:

- **Why It's Time to Break up with Your Spreadsheets**
- **Can You Eliminate Unneccessary Work?**
- **The Hidden Cost for Your Lending Operation**
- **Lending Workflows Make You Smarter**

"But I'm used to doing this in Excel."

Have you ever tried to brush your teeth with your non-dominant hand? It feels foreign and useless. Or maybe you've visited a friend's house to make a meal together, but you don't know where their tools or ingredients are stored.

In the space of a moment, you switch from feeling competent to helpless.

This phenomenon is a common occurrence in many areas of life. As humans, we develop comfort with a specific environment, set of tools, or a job process.

Reflect on the last time a friend or your driving-age child borrowed your car. When you sit in the driver's seat, everything is wrong: the mirrors, the seat, the steering wheel, and in the worst case they change the memory on the stereo buttons.

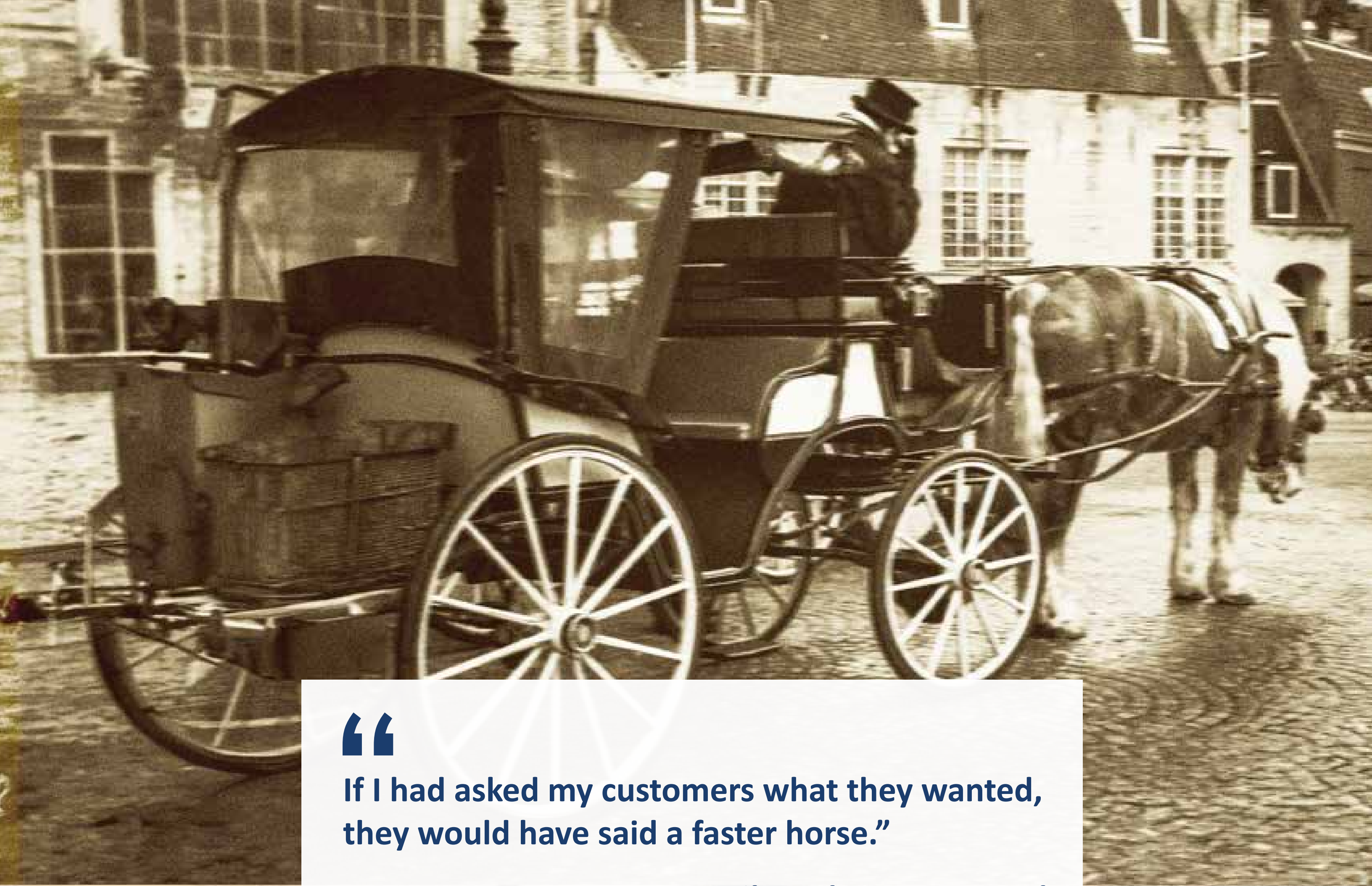
At financial institutions, this situation is happening with the most revered financial tool of the last 45 years: the Excel spreadsheet.

Compared to the paper ledgers that preceded it, the spreadsheet was a mind-boggling leap forward for bankers and accountants. It transformed entire industries with its combined versatility and structure.

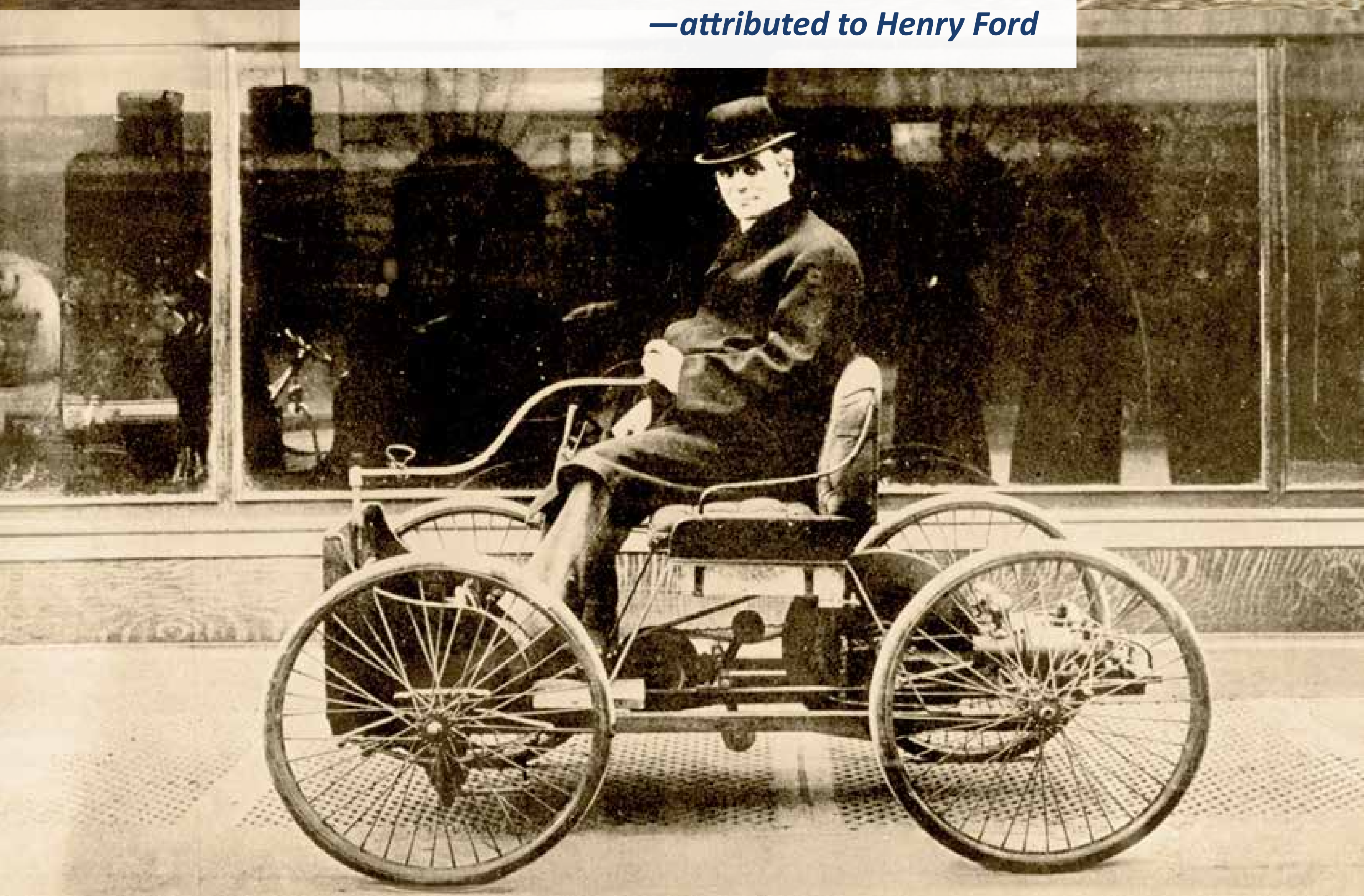
There's just one problem: Too many bankers, especially lenders, are still using spreadsheets as the master database for critical functions in their lending portfolio. And **the trusty spreadsheet is buckling under the weight.**

It's equivalent to the transition from horse-drawn buggies to automobiles. The age of the horse was incredible — it dominated transportation, warfare, and commerce for 5,000 years. All the attributes that made horses valuable are still true, but the utility of a horse pales in comparison to a vehicle with an internal combustion engine.

Centralized lending software has overtaken spreadsheets as the most efficient, secure, compliant, and user-friendly way to do business. Let's explore why it's past time to break up with your spreadsheets.



> “
> **If I had asked my customers what they wanted, they would have said a faster horse.”**
>
> ***—attributed to Henry Ford***



Why It's Time to Break up with Spreadsheets

To pull the horse-and-buggy analogy forward — there was a long overlap between biological horse power and mechanical horsepower. However, the movement toward mechanical horsepower had fierce advocates and obvious benefits over the status quo.

In financial services, the Excel spreadsheet is a genuine workhorse. You can open a file and begin building formulas, functions, and even create workflows in minutes. With the addition of Visual Basic for Applications (VBA), Excel can be used as a pseudo-development interface, allowing highly customized and complex operations.

Unfortunately, using Excel for complex lending workflows puts your institution at risk due to several critical failures:

1 Weak Information Security

Cloud storage and permission-based file access have come a long way, but Excel spreadsheets are still vulnerable. It's not unusual for bank employees to share files freely via email and direct messages. It's very difficult to know who has accessed the file, what changes they've made, and whether it's been copied or shared beyond the confines of your organization.

2 Poor Data Integrity or Quality Control

Broken or altered formulas and missing or incorrect data are part and parcel of any Excel workbook. Research has indicated that 90% of spreadsheets contain errors. Those errors (intentional or otherwise) have led high profile losses numbering in the billions of dollars at banks as big as JPMorgan Chase. It's safe to assume that many smaller Excel-related losses go unreported.

3 Version Control

Credit analysts should be able to connect the dots across three views, including a general overview of the industry, the industry's overall performance, and how the client's performance compares to its peers.

When industry trends shift or your institution's policies change, the need for accurate, up-to-date information is essential. Using Excel opens the door to version control challenges, as outdated or inconsistent spreadsheets can easily proliferate across a bank or credit union. When you update formulas or functions, how do you know everyone is using the correct version? A single misstep due to an old version of a spreadsheet can result in miscalculations, leading to taking on unnecessary risk or even regulatory issues. Moreover, operational inefficiencies surge as employees waste valuable time reconciling disparate data sets instead of focusing on strategic initiatives. In an environment where precision is critical, relying on Excel is like navigating a minefield blindfolded.

4 Non-Compliance

Examiners aren't known for their flexibility or graciousness — and rightly so. If your organization has improper access controls for your master Excel files or fails to calculate and report risk accurately, the consequences are costly to your balance sheet and reputation.

5 Inefficiency

There's no argument: many experienced bankers and accountants are wizards with Excel. It feels fast and efficient. But Excel doesn't scale well, especially when you factor in the issues mentioned above. Who is responsible for validating the spreadsheet and fixing problems? Who checks *their* work? Maybe you haven't made any billion-dollar mistakes with a spreadsheet yet, but if 90% of spreadsheets have errors, you're playing with statistical fire.

6 Negative Customer Experience

Do you use Excel to track lending workflows? What happens when one of your lending officers calls a major client and requests documents that the client has already submitted to another lending officer? It makes your team look disorganized and technologically backward. It's not the sort of thing that gives commercial borrowers confidence or peace of mind.

Most bankers have already seen the shift we're talking about firsthand, as more and more software-as-a-service providers create centralized platforms where data lives and teams can access it remotely.

These cloud-based platforms offer a secure repository for data and unlock new features and cost savings that aren't possible with manual data tools such as Excel.

Can You Eliminate Unnecessary Work?

Financial institutions have found ways to manage most of the issues we mentioned above. We're not making any statements about the competence or integrity of your team.

The real question is, how much time do you spend maintaining spreadsheets you aren't aware of because it's part of your routine? What if you could redeem that time and have a faster, more efficient process?

The Hidden Cost for Your Lending Operation

Excel is used differently across the lending continuum by the various departments – making it difficult to control and mitigate risk.

Credit

Statement Spreading

Processing an applicant's financial statements and running detailed cash flow projections is a science and an art, especially if you're performing it manually in Excel.

That also leads to discrepancies between clients as each lending officer or underwriter may use slightly different techniques. The result is inaccurate risk assessments, scoring, and, consequently, pricing. Inconsistency can also open up your institution to reputational risk and even failed bank exams.

Exception Tracking and Ticklers

When lenders use Excel to document exceptions and ticklers, it can create massive issues with follow-up and document collection. Hopefully, you have a system for how spreadsheets are built and where employees should look for relevant due dates or exception details. But that's not always the case. They are called "exceptions" for a reason.

This use case screams for a dedicated customer relationship management platform. Unfortunately, many lending teams are still quietly drowning in a sea of spreadsheets, missing important signals that a loan is in trouble or a customer is at risk.

Customer Service

Transparency

Viewing the customer or client through a single function, like application or repayment, gives a distorted view of the relationship across the organization. It also creates points of failure when experienced staff members leave or move into new positions.

Documenting the client relationship through Excel creates silos and pockets of tribal knowledge that are difficult to transfer or add to, causing rework and unnecessary back-and-forth email chains.

Customer Experience

Consistency and quality are hallmarks of excellent customer service. Consumers and business owners have high expectations. They know how fast and efficient technology should be. When a process as important as applying for a loan feels antiquated and redundant, it can sow doubt about your organization.

Your employees also expend extra effort to compensate for the shortcomings in the process. If the workflow isn't streamlined, people and money will inevitably fall through the cracks. The mistakes aren't malicious or negligent. There are just too many moving pieces for anyone to hold it all together for every client, every time.

A sleek client portal that connects to a unified back-office creates an optimum experience for borrowers and your lending team.

Risk Management

Applying Credit Policy

We hear bankers talk about how they like being able to revise a spreadsheet and align the numbers.

Let's be blunt: That's not a credit policy; that's a *dangerous* policy. Aside from the potential for genuine error, it's exactly the type of practice that will cause an examiner's head to explode and your institution to get hit with fines or worse.

The purpose of a credit policy is to create consistency and protect your institution from excess credit risk and unconscious underwriting bias.

Risk Ratings

Loan pricing is based on a complex equation designed to help you stay competitive in the market and adequately price your risk.

If your lending team isn't calculating risk in a consistent way, you're likely leaving money on the table and missing out on the value for the risk you're taking on.

You probably have people in your organization with differing viewpoints on calculating risk and what to charge borrowers. Multiple viewpoints can be a good thing. Ideally, they lead to a fruitful discussion and better alignment on the final policy.

The real danger is from uneven enforcement of that policy.

Lending Workflows Make You Smarter

A unified platform offers accessible, secure, and up-to-date information for all team members. It streamlines workflows, ensuring compliance with institutional policies while reducing inefficiencies. By aligning processes and eliminating manual data entry, teams can focus on higher-level tasks, enhancing client satisfaction and service quality. Additionally, a collaborative pricing approach supports informed decision-making and boosts competitiveness. Ultimately, this system accelerates the lending process, enabling teams to manage more business effectively.

1 Transparency

A single, comprehensive source of truth creates clarity and accountability for your entire organization. If someone outside the lending department wants to learn about a client, the information is accessible, secure, and up-to-date. If someone in sales wants to check the status of a loan, it's simple. If a relationship manager needs to request updated documents or discuss refinancing — everything lives in one place and the information is the same for everyone

2 Quality

Your lending team works hard to do everything above board and by the book. But lending is complicated, especially multi-million-dollar commercial deals. If you have a rule-based software system, everyone can effortlessly adhere to your institution's policies.

3 Workflow

Sales, document collection, underwriting, exceptions, negotiation, terms, signatures, disbursement, ticklers, refinancing — it's all connected. Or at least it should be. For some institutions, it's more like a game of hot potato, only the players are already juggling multiple hot potatoes. That's not a workflow; it's a work hazard.

Once you bring all those processes and functions into a unified, digital, cloud-based system, the juggling can stop. Each team member can see which task to tackle next, and the system manages every handoff and verification.

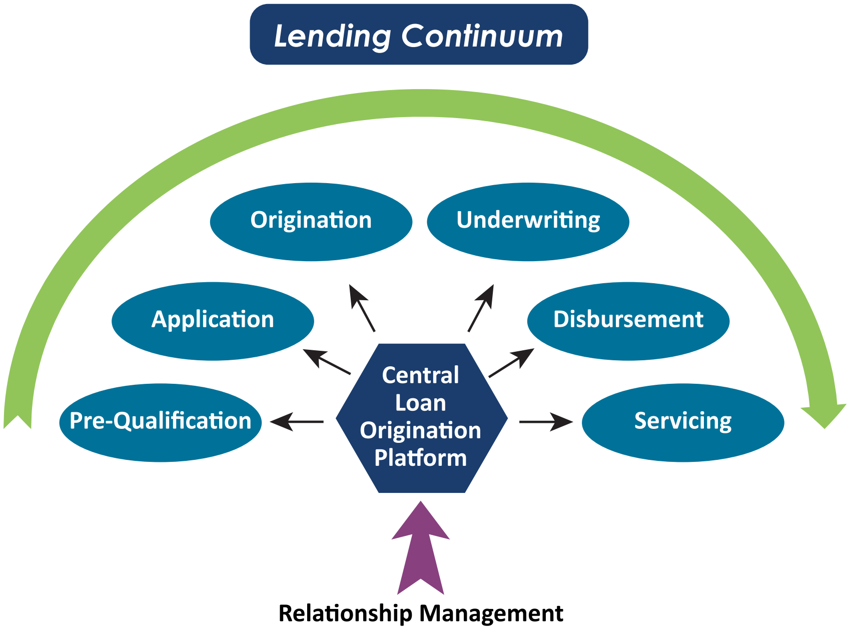
Nobody gets burned, and nothing gets dropped.

4 Everyone speaks the same language

Harmony: it's delightful in choirs and lending departments. When you work from a rules-based software platform, everyone can sing from the same songbook.

You configure all your policies and procedures into the system so that nobody has the power to undermine your data integrity.

Although many lenders feel deep pride in their unique approach to analysis, statement spreading, or risk scoring, the reality is that your competitive edge can be much bigger than an esoteric formula in Excel. When your team is free from the tedium of manual data entry and spreadsheet management, they can focus on higher-level tasks that lead to better service and higher client satisfaction.



If you look at the lifetime of a lending relationship on a continuum, you can see a lot of opportunities for improvement.

5 Profitability

The final word on pricing shouldn't sit with a single person in the lending organization. It's a decision that affects the entire bank and needs to be made from that viewpoint.

When you use a unified platform, the pricing committee can analyze the data holistically and make an informed decision. That level of visibility doesn't just lead to better buy-in; it helps optimize your pricing, which can lead to a much sharper competitive edge.

6 Speed

By bringing all your lending data into a single system, you can increase speed at every stage of the deal and throughout the life of the loan. If each deal takes less time to close and each relationship takes less time to manage, your team will have the bandwidth to take on more business.

It's a virtuous cycle: clients get faster, higher quality service and your team can see their productivity skyrocket.

You Can Love Excel Without Clinging to the Reins of the Past

Bankers may not wax romantic about Excel the way some people do about horses, but they are still reluctant to retire such a familiar, trusted tool. Excel represents an era of banking that experienced more rapid technological change than any other phase in history.

The utility of Excel isn't going away. It's still the type of thing that people can and should use to run custom calculations and explore novel scenarios. A banker's toolbox will always have a space for a manual spreadsheet, but **it shouldn't be the foundation of your lending operation.**

Baker Hill knows lending. It's been our focus for the past 40 years, and it will continue to be our focus into the future. Baker Hill NextGen® is a comprehensive lending platform that provides your institution with a strong foundation, giving you the power, consistency, and speed of a rules-based software application along with customizable features to empower your team to manage your unique lending portfolios.

If you're ready to break up with your spreadsheets and drive into the future with a modern lending solution, contact us to get started today.

bakerhill

Baker Hill is in the business of evolving loan origination by combining expertise in technology with expertise in banking. Built on decades of walking alongside banks and credit unions as they provide vital resources to their communities, Baker Hill NextGen® is a configurable, single platform SaaS solution for commercial, small business, consumer loan origination, and risk management that grows along with you as your business needs change. Baker Hill is lending evolved. For more information, visit **www.bakerhill.com**.