

Commercial Loan Automation Arrives... Finally!

Steve Williams
May 19, 2006

About a year ago, I wrote a GonzoBanker column (“Commercial Loan Automation...Please!”) that lamented the lack of viable software tools to help streamline and automate the commercial lending process. The article got some attention from the vendor community. Many companies quickly contacted me to inform me that I didn’t understand how “robust” their solutions were. I mostly nodded politely, folded my arms and challenged, “Show me some customer installs and then I’ll listen!”



Fifteen months later, I am pleased to say that the commercial loan software market is about to heat up BIG TIME. Banks looking to better automate their commercial lending functions now have a growing group of vendors to choose from with some early betas and installs under their belts. For the most part, these vendors are early in the game in delivering new, Web-based workflow tools that help create a “straight-through process” in the commercial lending area. With a clear caveat emptor warning on much of what I will discuss, let’s take a quick look at eight of the hottest vendors right now in commercial loan automation:

Baker Hill – For many years, the well regarded team from Carmel, Indiana was virtually the only game in town for commercial software. The company’s OnePoint suite of products become quite a rage in the late 1990s, and Baker Hill created another hit with its Bank2Business ASP-based solution for small business credit scoring. (“B2B” processed an impressive 166,000 small business loan applications in 2005). Later, however, Baker Hill has been busy working to modernize and integrate its product offerings. Many of the OnePoint modules that grew creaky with age are being replaced with next-generation technology: a sales module (Client Advisor), a credit analysis module (Bank2Corporate), an exception tracking system (Exception Advisor) and a new portfolio management tool called Portfolio Risk Advisor. This technical transition has been a ton of work for Baker Hill, which became part of Experian (yes, the credit bureau) in 2005. The company has not yet substantially penetrated its large, existing client base with the new products, and this will likely be the highest priority for Baker Hill in the near future. Baker Hill will need to get its older system clients migrated to the next generation products before the competition bites too hard at its heels.

Harland – One the emerging competitors for Baker Hill will be Harland Financial Solutions, whose LaserPro document prep system has become one of the standard systems used by banks around the country. For years, folks have run the LaserPro doc prep piece but have been frustrated that there was no integrated solution for sales, analysis/underwriting and document management. This year, Harland has released CreditQuest, a system that integrates with LaserPro to go more “end-to-end”. So far, the installs of this product are early and with smaller banks, but the folks inside Harland are mungo excited about this product release. With the thousands of LaserPro users in the country, Harland is hoping





that CreditQuest cross-sells can pave the way to riches and fame. The opportunity is there, but it's not guaranteed for Harland - solid execution of the initial installs during 2006 will be super important to start the buzz within the LaserPro client base.

CapitalStream - Industry buzz has started to emerge for CapitalStream, a fairly new player in the loan automation world hailing from Seattle. Backed by venture capital, CapitalStream started with early wins in specific business units of larger banks (e.g. BofA for online small business), but the company is now moving more aggressively into middle market banks like North Fork and M&I. This company appears to have spent a good deal of time and investment on its commercial lending workflow capabilities.

Provenir - This New Jersey-based company has been delivering lending workflow systems for a number of years, beginning in the consumer finance and card markets and now expanding into small business and commercial lending. Like CapitalStream, Provenir is touting new technology and a customizable workflow tool kit to help streamline lending processes. Regional banks such as Bank North and Zions have chosen Provenir to support business lending activities. It will be interesting to see if Provenir can scale down successfully below the regionals into the mid-size banking market.

William James & Associates, Ltd. - This smaller firm from Chicago started as a custom development shop that later developed a package of new-technology products called LoanBuilder, ClientBuilder and CallBuilder. William James is promoting the integration of both loan automation and the CRM-type capabilities resident in the ClientBuilder system. While installs of the product are small at this time, banks like MB Financial have hitched their wagon to this new face in the crowd.

Cyence - This Canadian company cut its teeth primarily in the commercial finance world but recently has made a move to enter the U.S. bank commercial lending market. With its Microsoft-based workflow platform, Cyence appears to be on the prowl for a "beachhead" banking client or two in the U.S. market. It will be interesting to see if all the strong finance company expertise can translate into bank mid-market and small business arenas.

AFS - Automated Financial Systems, Inc., a longtime leader in commercial loan servicing with its famous "Level III" system, has made strong investments over the past five years in beefing up its origination and workflow capabilities. The company is selling the ability to do commercial, small business and consumer loans through one straight-through solution. Regional banks like Sovereign utilize AFS's outsourced offering for origination and servicing. Although it's very feature rich, the AFS solution can shock the pocketbook of many mid-size and community banks.

PROFORMANCE - Finally, new commercial loan origination competition may ultimately arise from an interesting place: loan document imaging. Houston-based PERFORMANCE has introduced its INFO-ACCESS product, which integrates loan document imaging with exception tracking and collateral management capabilities (a solution geared to compete directly with Baker Hill's Exception Advisor). I don't expect PERFORMANCE to stop there. More contact management and workflow capabilities are likely to be developed in INFO-ACCESS in the future, and this imaging solution will end up competing in many ways with some of the origination software providers listed above - coming at them from a totally different angle (the doc management side). Heartland Bank in Illinois is one example of a bank that has done some creative process improvements with the INFO-ACCESS system.

So there you have a quick rundown of a software market that is going to be a bare-fisted brawl for the next generation of commercial lending process automation. I'm excited to see a ton of new, Web-services based systems hitting the

market to help streamline one of the most fragmented and sorry processes left in the banking industry. For banks looking to take the “straight-through processing” plunge, I have the following words for the road:

Remember – most of these systems are early in their lifecycles. Be a cautious and skeptical buyer. Really push those reference calls and make sure you know exactly which departments of which banks are running which modules. Vendors will try to gloss over some of these details to make the product “feel” more widely installed.

Please do not underestimate the labor required to successfully implement. These are not drop-in turnkey systems no matter what the salesperson says. These are 6 to 12-month projects that will require heavy efforts to set up system parameters, define products and workflows, and build reports. Banks that short-change the implementation resources on a deal like this will end up with an expensive system that never achieves its process improvement goals.

Have the “come to Jesus” meeting about commercial process. Many of the design decisions that will need to be made in implementing these new systems will have to come from the senior management of the commercial and credit teams. Issues such as loan authority, roles of loan assistants, required pipeline information and the definition of small business vs. commercial loans are all the type of design issues that must get worked out before a single workstation comes up live. I witness too many banks that start a commercial software implementation and then try to negotiate their new internal processes.

Use benchmarks to drive the payoff. Make no bones about it. Most of these systems will cost hundreds of thousands of dollars if not millions to operate over a five-year period. Any bank hoping to get that grumpy CFO to sign off on an automation investment like this had better have some clear payoff or success metrics in mind to drive the business case. For instance, Cornerstone finds it can easily justify new software like this if the Commercial group will buy into increased productivity metrics for loan officers, loan assistants, back-office loan staff and credit analysts. The growth in salary dollars avoided by increasing productivity of existing staff over a three-year period can be mind-blowing – if there are bankers who will put some skin in the game.

BIOGRAPHY: STEVE WILLIAMS

Steve Williams is a Principal of Cornerstone Advisors, where he heads up the firm’s Strategic Services practice and contributes frequently to GonzoBanker. Steve rarely speaks to anyone outside the firm’s Strategy practice, particularly the toads in Ops or Technology. Steve has over 15 years of experience in the financial services and consulting industries, including strategic planning, technology planning and performance improvement. Before founding Cornerstone, Steve was with M ONE, Inc., where he built the Strategic Services practice for the firm. In addition, Steve has served an Assistant Managing Director with Arthur Andersen & Co. and a commercial lender and operations officer with Chase Bank of Arizona. Steve’s career began as a Marketing Analyst at Chase Bank.

Steve is a faculty member at the National School of Banking in Fairfield, CT, and has been published in numerous banking periodicals, including the American Banker and Journal of Commercial Lending.

Steve holds an MBA in Finance summa cum laude from Arizona State University and a BS in Journalism from Northern Arizona University.

Reprinted with permission from GonzoBanker and Cornerstone Advisors, Inc., Scottsdale, Arizona.
To see this article on the web, go to <http://www.gonzobanker.com/article.aspx?Article=283>



PROFORMANCE
The Information Access Company
281.292.9000 • www.pf-inc.com