USING A WORKFLOW SYSTEM **TO MEET INSTITUTIONAL GOALS**

LOREN PESSOLANO, CREDIT RISK CONSULTANT

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EXECUTIVE **SUMMARY**

While seeking to promote long-term and stable growth, bankers must focus on raising capital, increasing profits and reducing costs in an increasingly competitive environment. This requires attention to obstacles that may prevent the bank from meeting those growth objectives.

In the highly competitive environment in which community banks and credit unions operate, one obstacle that can make an institution uncompetitive is inefficiency, particularly within a credit department. With the proper implementation of a workflow management system, the institution can identify and resolve points of inefficiency. This paper explains the ways in which an efficient workflow can help an institution meet its growth objectives.

BENEFITS OF A **WORKFLOW SYSTEM**

AVAILABLE ON-DEMAND WEBINARS:

Uncovering and Preventing Holes in the Lending Process

To balance growth, profitability and risk mitigation goals, a bank or credit union has to have systems supporting each goal. Workflow management systems can be described as solutions or platforms that allow an institution to define, execute, manage and modify existing processes related to specific strategic business objectives. They eliminate redundant tasks and ensure that uncompleted tasks are followed up on.

In the context of portfolio growth and profitability, a primary objective is managing credits – the lifetime of a loan, starting at discovery or business development through potential impairment and risk management. A workflow management system that covers credit processes would provide access to real-time, comprehensive information on the status of loans in the pipeline, trailing loan documents, periodic credit reviews, watch-list credits, impact of stress scenarios on loans and impairment status with the resulting provision.

According to Alan Joch, an independent business and technology writer, "Information may be power, but it can also be a complex mess. That's why organizations across the world and in all types of industries identify better information management as one of their most important goals today. For example, when asked to name their current top priorities, more than half of the U.S. firms in a recent survey chose the ability to effectively make content available to their staffs when and where they needed it."[1]

[1] Joch, Alan. "Four reasons to bank on optimized workflow." In Context. May 23, 2014. Accessed at http://www.incontextmag.com/articles/2014/four-reasons-to-bank-on-optimized-workflow.html.

APPLICATIONS FOR **WORKFLOW**

By providing staff with the necessary data through a workflow solution, institutions are equipped to solve some common challenges:

1. Managing the new-loan origination process. For many financial institutions, the process of taking a loan from application to closing can take several months. It involves numerous bank employees, including business development officers, analysts, credit committee members, loan administration and outside closing agents. As the prospective loan advances from stage to stage, bottlenecks are common, as a result of:

- back and forth with the borrower for required financial documents
- unbalanced credit analyst workload
- unresponsive third parties
- unclear loan-decisioning rules that require added discussion
- delay as the credit file is passed between parties
- hunting down the credit file when the bank has to report to the borrower on progress

Without a systematic and comprehensive way of defining and tracking the process, bank management is forced to rely on anecdotal information as to the status of a credit request.

Opportunity

Step Name	Status	Priority	Owner	Notes
Prospecting	Outstanding	High	Kevin Johnson	
Discovery	Outstanding	Low	Kevin Johnson	
Gather Information	Outstanding	Medium	Kevin Johnson	
"Know Your Customer" Required	Outstanding	Medium	Kevin Johnson	
Loan Request	Outstanding	High	Kevin Johnson	
Initial Analysis	Outstanding	Low	Mike Ford	

+ Add a New Workflow Step

APPLICATIONS FOR **WORKFLOW** (CONT.)

But visibility into a process enables management to both (1) see the status of workflow tasks and (2) have an audit trail to keep track of what has been completed and by whom, leading to improved pipeline management and better forecasting.

Robert Ashbaugh, a former banker with PNC Bank and current Sageworks risk management consultant, notes: "It is very difficult to manage your pipeline when you are manually tracking it. Managers are seeking status updates on a weekly basis not only for their supervisor but also for the funding desk. There is no central source available to locate this information."

If you remove management's responsibility of allocating and monitoring progress of day-to-day activities, the management team can allocate more time to strategic decisions that similarly support the institution's growth or profitability objectives.

In new-loan origination, workflow management systems also empower management to identify and remedy bottlenecks, which once addressed, can improve turnaround time for new loans and give the institution a competitive edge over other institutions vying for a borrower's business.

CHECKLIST:

6 Requirements for a Loan Admin Process

2. Tracking outstanding post-closing documents. This stage of loan management starts immediately after loan closure and includes trailing critical documents. Absent a methodical, proactive process for identifying and tracking outstanding documents, the potential for documents "falling through the cracks" greatly increases. This can lead to greater institutional risk with respect to, among other things, proper lien perfection, inadequately insured collateral and regulatory scrutiny.

APPLICATIONS FOR **WORKFLOW** (CONT.)

On the surface, documentation exceptions for loan tracking may seem minor or less important than underwriting policy exceptions; however, that may not always be the case. Missing, stale or improperly executed documents can, as the OCC Comptroller's Handbook on Loan Portfolio Management states, "exacerbate problem loans and seriously hamper work-out efforts." Here again, an automated, centralized workflow that allows for the creation of ticklers and exception reporting is invaluable. This workflow process also allows for the identification of patterns that may single out a deficient closing agent or branch that needs to strengthen documentation compliance.

3. Collecting current financial information for periodic/annual reviews.
According to the Federal Reserve Bank of Atlanta, an effective loan review system should at a minimum promptly identify loans with potential credit weaknesses, identify trends affecting the collectability of the portfolio and assign risk grades based on quantitative data.[2]

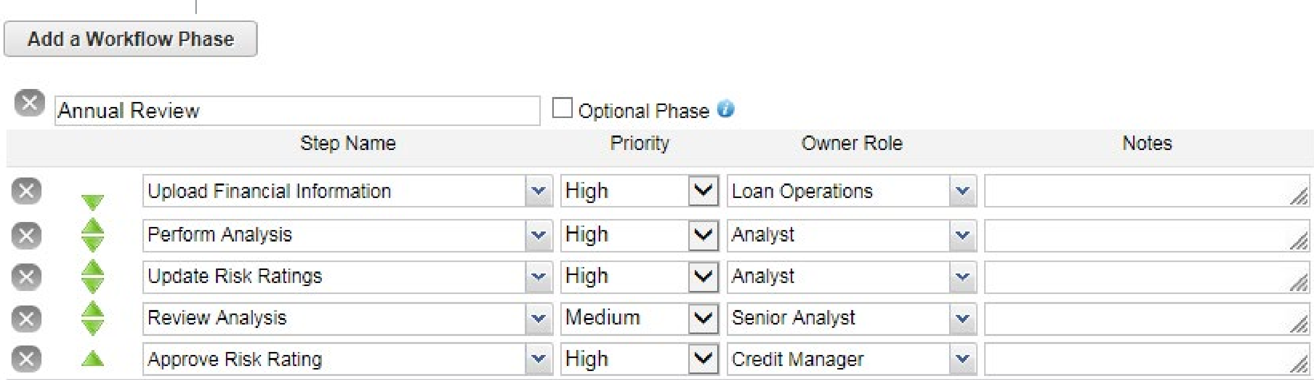
To perform a periodic review of commercial borrowing relationships, the institution must be in receipt of current business and personal financial information, and the collection process can be streamlined and documented using a workflow that outlines responsibilities, tracks activities and records receipt dates. A borrower's failure to provide updated financials may be an indicator that they are experiencing financial difficulties, so the opportunity to quickly assess which borrowers have overdue documents can serve as an early warning sign.

[2] Federal Reserve Bank of Atlanta. "Components of a Sound Credit Risk Management Program." Accessed at https://www.frbatlanta.org/-/media/Documents/banking/publications/ComponentsSoundCreditRisk.pdf.

APPLICATIONS FOR **WORKFLOW** (CONT.)

Ashbaugh describes a loan review challenge faced by many financial institutions: "We [the bankers] were responsible for getting updated financial information from our customers so that underwriting could perform annual reviews. Reviews were not always completed in a timely manner since we were chasing down financials, then following up with underwriting on the status of reviews once the information was received, while trying to keep track of everything in order to provide management with updates."

An annual workflow process, in conjunction with an effective financial tickler system, provides the necessary building blocks for compliance with these regulatory directives. For example, loan administration's diligence in tracking and uploading current financial data would trigger notification to the next "owner" that the relationship is ready to be analyzed and risk graded. As each step is completed, the process will move forward until the analysis and risk grade assignment are approved. A systematic, centralized workflow system can replace piecemeal communication. In addition, management has the ability to access workflow status reports indicating which phase the workflow is in and the percentage of overall completion.



APPLICATIONS FOR **WORKFLOW** (CONT.)

4. Transfer of Watch-List credits to Special Servicing. Upon the occurrence of certain specified events, primarily a default or breach of covenant, the administration of a loan should be transferred from the banker to Special Servicing. If the loan or relationship has been classified at or above a certain, defined risk level, the loan file, including collateral and credit documents, will be passed on to the special assets group. This process raises a few procedural questions:

- Will the banker meet with the Special Assets Department to communicate the customer's financial situation?
- Should Loan Administration be advised to update ticklers requiring financial data quarterly or monthly instead of annually; will new covenants be agreed to and tracked?
- Is a new appraisal being ordered?
- Has the loan been evaluated for impairment?
- Has Special Servicing developed its loss mitigation strategy?

A workflow can address these critical questions through a series of defined steps and approvals, with role-based routing and associated transfers. In other words, the benefits of a workflow process do not end with underwriting or even servicing, but continue into portfolio management.

CONCLUSION

While a "workflow" can be tailored to suit any process within a bank or credit union, particular applications of a workflow management solution within the credit department can yield efficiency gains, higher employee productivity, visibility into the process, documentation ready for examiners and a consistent adherence to the institution's best practices. Specifically, workflows can help the bank or credit union overcome challenges with new-loan origination, tracking documents after closing, servicing the loan through annual reviews and identifying or transitioning loans to Special Assets.

Furthermore, with the rise of industry-specific solutions, a bank or credit union may choose to adopt a workflow management solution with pre-built templates, offering insight into how peer institutions establish stages and assign responsibility within each of these applications.

Regardless of which solution an institution implements, workflow management systems tend to unify employees with diverse skills into a more cohesive unit, while building in a layer of accountability and awareness of the full "life of the loan." Armed with that information and an efficient and transparent system, the bank or credit union will be better positioned to meet portfolio growth, profitability and risk mitigation objectives.

ABOUT **SAGEWORKS & THE AUTHOR**

Sageworks (www.sageworks.com) is a financial information company working with financial institutions, accountants and private-company executives across North America to collect and interpret financial information. Thousands of bankers rely on Sageworks' credit risk management solutions to streamline credit analysis, risk rating, portfolio stress testing, loan administration and ALLL calculation. Sageworks is also an industry thought leader, regularly publishing whitepapers and hosting webinars on topics important to bankers.

Sageworks Workflow supplements other Sageworks solutions so banks and credit unions can define, systematize and streamline workflows related to prospecting, analyzing, servicing, and impairment. To find out more, visit www.sageworksanalyst.com.

Loren Pessolano is a credit risk consultant for Sageworks, where she consults with financial institutions nationwide and trains on Sageworks solutions. Before joining Sageworks in 2014, Loren worked in credit administration at a venture capital bank and prior to that spent 15 years in consulting, loan review and bank training. She received her bachelor's degree from the University of Connecticut and a master's degree from North Carolina State University.

ADDITIONAL **RESOURCES**

"Success with Automating Loan Administration," *Sageworks.*

http://web.sageworks.com/success-automating-loan-administration/

"Compiling the Best Data for the Reserve Calculation," *Sageworks.*

http://web.sageworks.com/best-data-for-reserve-calculations/

"Inconsistency with Financial Institution Data & Analysis," *Sageworks.*

http://web.sageworks.com/inconsistent-data-financial-institutions/

"Making Your Lending Process Efficient," *Sageworks.*

http://www.sageworks.com/blog/post/2015/03/05/Making-your-lending-process-efficient.aspx

Joch, Alan. "Four Reasons to Bank on Optimized Workflow," *In Context.*

http://www.incontextmag.com/articles/2014/four-reasons-to-bank-on-optimized-workflow.html