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TECHNOLOGY

Software for Commercial Banking Catches Up

■ BY JEREMY QUITTNER

As the regulatory environment for risk and compliance grows more rigorous, banks are considering new technology to give them a more comprehensive view of their commercial portfolios.

Unlike banks' consumer lending portfolios, which have long benefited from standardization of information and analytic tools, commercial banking portfolios have been neglected. Many still use Excel spreadsheets to account for portfolios that are vast and complicated.

"We had one spreadsheet program for small business, one for [commercial and industrial] and one for agriculture," said Debra Hanson, chief credit officer for **Bremer Bank** in St. Paul, Minn. "They were not compatible at all."

Bremer is a commercial bank that works with about 12,000 businesses. Its loans average between \$100,000 and \$15 million. Bremer has \$8 billion of assets and 100 branches. About 20% of its assets are in retail banking, the remainder are in commercial.

About a year ago Bremer decided to consolidate its commercial loan information onto a single, cloud-based platform from **WebEquity Solutions** LLC in Omaha, Neb. The product allows the bank to have a unified look at all its loans, starting with origination, determining risk, analyzing its financial positions, and conducting stress testing.

"We wanted one solution for all of our commercial clients," Hanson said. "We expect to be able to make improvements to our portfolio analysis and loan underwriting."

Bremer has already ported over its agricultural loans, and will spend the rest

of the year moving the rest of its loans to the system, the bank said.

Industry experts said that the commercial lending space has long been overlooked for small and midsized banks. By contrast, larger banks have the resources to construct their own systems, experts said.

But current regulatory pressures in the U.S., and around the Basel Accords, have forced them to take another look.

"There is an opportunity right now because many banks are starting to realize they would be better served with a single platform solution that incorporates origination processes and automation of workflow and sound decision analytics capabilities," Christine Pratt, an analyst for Aite Group LLC in Boston, said.

Third-party vendors have realized banks' needs in the commercial portfolios, and they have stepped into the void in recent years. Vendors in this space include **Experian** Group, **Fidelity National Information Services Inc.**, **Fiserv Inc.**, **Harland Financial Solutions Inc.**, **Moody's** Investors Service, and **WebEquity Solutions**.

"So many banks are looking at this now; those that don't will be at a competitive disadvantage if they don't start evaluating ways to improve the way they are conducting commercial lending," said Kristin Moyer, research director for banking and investment services at Gartner Inc., of Stamford, Conn. to commercial lending.

"There is a great opportunity to consolidate applications and simplify the architecture, and have more agility, transparency and efficiency," Moyer said.

Loan underwriting and pre-qualification, which happen in both retail and commer-



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cial portfolios, are some of the processes that can be standardized, Moyer said.

Other experts say that commercial loans have quirks and complexities that make them unlike consumer loans. For example, consumer lending is almost totally reliant on a credit bureau score, and the approval process has become so standardized that decisions can be made within minutes.

This is not the case with commercial loans.

"You are looking at complex entities and multiple facility requests," said Kimberly Songer, director of risk solutions for Harland Financial in Portland, Ore. "It is not like the pure, straight standardization in retail lending."

Joel Pruis, principal business consultant for Experian Decision Analytics, said that a far greater degree of standardization

can be achieved with small business commercial loans, because small businesses, which are frequently sole-proprietorships or simple business entities, behave much like consumers. Entrepreneurs will also often secure their business loans against their home equity.

“Experian will show the mortgage balances and supplement this external data, which lets them look at collateral exposure,” Pruis said. Experian’s product for small business lending is called Portfolio Risk Advisor. It does stress testing based on scenarios that project sales declines in particular industries and the impact that might have on the portfolio.

“There are models in the Advisor platform that will let [banks] adjust historical financial performance and make assumptions of sales declines and margin reductions,” Pruis said.

Harland’s Credit Quest is another product that attempts to tackle the complexity. It begins with loan prospecting and follows the loan through origination to underwriting and ongoing analysis.

Baker Boyer Bank, a \$550 million commercial bank in Walla Walla, Wash., began using Credit Quest in 2006 to improve what Gerianne Graham, the bank’s vice president of lending, described as a home-grown system based on Excel spread-

sheets. Graham said the bank does a lot of agricultural lending for local wineries.

“We were really restricted and did not have one platform that all our commercial lenders could use to really simplify the process,” Graham said, adding that Credit Quest helps with all aspects of the bank’s commercial lending, including producing credit memos, credit analysis, and board reporting on loan-loss reserves.

“All three of those things were critical to us,” Graham said. “We were proactive to position ourselves with a product and process that has made it much easier to meet changing regulatory needs for reporting, which is the most difficult.” ■



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