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PART THREE OF A
THREE-PART SERIES

Implementing a Commercial Loan Origination System

Seven Common Pitfalls and How to Avoid Them

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The Seven Common Pitfalls of a CLOS Implementation

Deploying an end-to-end commercial loan origination system (CLOS) is complex and provides many opportunities for missteps. Understanding the common pitfalls that can happen during the implementation is the best way to steer clear of the mistakes.

Financial institutions embarking on a CLOS implementation are typically looking to achieve a number of business objectives, including:

- Providing customers with a seamless digital experience
- Eliminating multiple lending platforms and paper-intensive processes
- Reducing origination processing cycle time
- Improving loan spreads/pricing and fee income
- Minimizing manual and/or redundant processes
- Achieving profitable growth in lending volume

There are many traps financial institutions can stumble into on the path to a successful implementation. What follows are the seven most common, along with some tips on how to avoid them.

1. Lack of teamwork
2. Implementing, but not improving
3. Inadequate system testing
4. Poor user training
5. Lack of a go-live support structure
6. Implementing too-much, too-soon
7. Poor communication after go-live

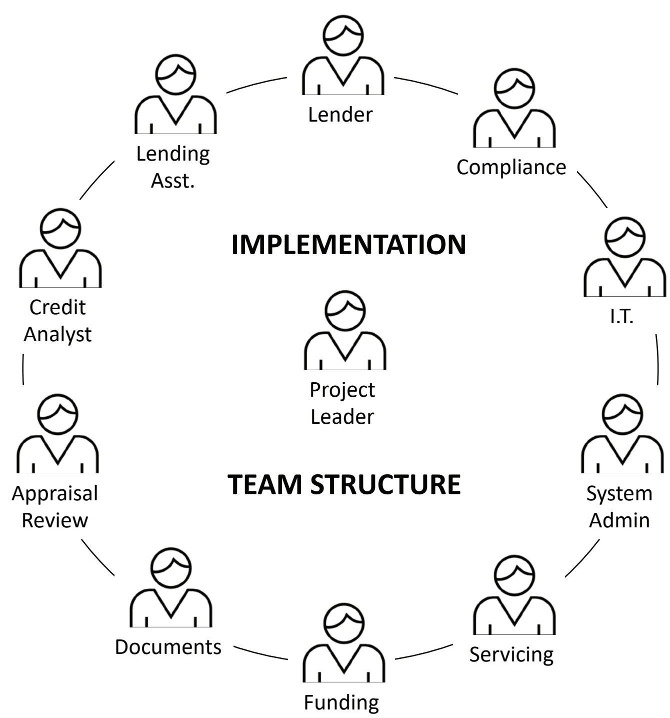
PITFALL #1:
Lack of Teamwork

Implementing a complex technology can be mistakenly thought of as a solely technical exercise. This is one of the most common blind spots financial institutions have. Putting a new origination system in place will change the work performed by everyone involved in the loan delivery process to some degree, perhaps dramatically. If the implementation is done correctly, this change will be for the better, and user adoption is a non-issue.

Avoiding the Pitfall

As with the selection process, having full representation of stakeholders and actual users that are involved in the daily process is paramount. The best implementations have full stakeholder investment, ownership and participation. The best way to gain buy-in and a sense of empowerment is to distribute the ownership to the functional experts who do the work every day. When issues arise—and there will be many—teams that feel they have ownership will dig in and find creative ways to solve these issues.

The opposite of this is trying to run an implementation with a small representation of the work stream and controlling personalities that have a "my way is the best way" mentality. Key considerations should include representation from lenders, lending assistants (often the "glue"), credit analysts, appraisal reviewers, documentation experts, loan closers/funders, loan servicing/operations and support members from IT and Compliance. Regardless of where they reside, the support resources that provide system administration and knowledge of the core loan system will be relied on heavily.



PITFALL #2:
Implementing, But Not Improving

Financial institutions often select a CLOS without a full understanding of their current operating environment and a clear definition of what the future should look like. Starting the building and configuration of the selected loan origination platform without this knowledge is a like trying to pour a building's foundation before drafting the architecture plans.

For some, the thinking centers around adopting whatever process the new system offers rather than creating a blueprint of how the new system needs to be set up in order to make necessary improvements. If the design work isn't ready before the vendor is onsite to begin the implementation, the institution can get distracted from the project goals and end up implementing whatever the vendor recommends or automating current practices just to get through the project. While it can be comforting to hear the vendor's best practices, these should be taken in the context of the institution's unique situation.

A financial institution needs to have a well thought out design for how the process should work if it hopes to achieve the desired performance improvements from the system.

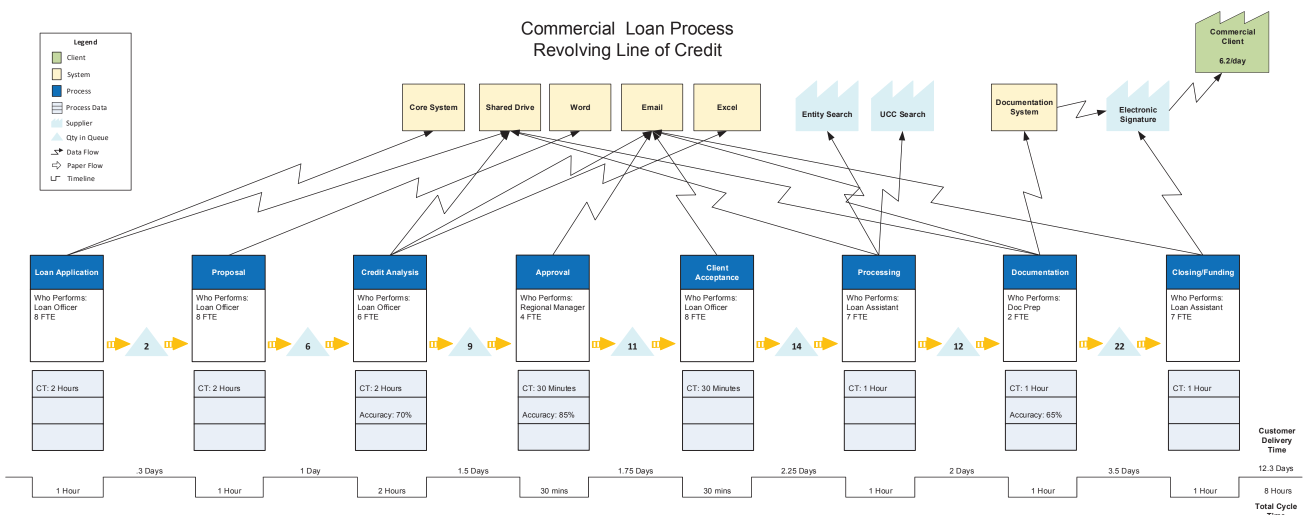
Avoiding the Pitfall

A financial institution needs to have a well thought out design for how the process should work if it hopes to achieve the desired performance improvements from the system. If this wasn't done prior to the selection, it should be done now, starting with the implementation team going to see the commercial loan origination process firsthand, in the office areas where the work is done. Since all loans are not the same, the institution should consider looking at loans grouped into three categories:

1. **Low complexity**—unsecured or loans without covenants
2. **Medium complexity**—loans secured by titled vehicles or equipment
3. **High complexity**—loans secured by real estate or with complex borrowing structures

The institution should capture how processes work today, including current performance measures, using mapping techniques such as Value Stream Mapping or Journey Mapping. Key process performance measures to capture include loan volumes, processing time, defect rates and average end-to-end cycle time. Walking through and mapping the different loan groups as a team will enable everyone to identify and discuss pain points and wasteful activities.

Current State Value Stream Map



Once the current state is understood and measured, the next step for the team is to create a desired future state design that identifies the specific improvement "must-do" items and target performance measures. This design will guide how the system is configured in order to achieve the desired improvement targets and help prevent implementing without improving.

PITFALL #3:
Inadequate System Testing

Once the configurations are completed, the project will move on to user acceptance testing. This is a critical time during the implementation to ensure that the configuration work was done correctly. Fine-tuning the configuration emphasizes the need to be thorough. The dynamics of the project's complexity are at a peak once the system goes live, so identifying and resolving problems during testing helps limit the amount of user frustration out of the gate.

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Avoiding the Pitfall

The institution should assemble a team of "power users" representing each function of the process. One of the first responsibilities for the power-user team is to help develop, review and update vendor-provided user acceptance test scripts and perform the testing. Testing every scenario isn't realistic, so it's important for the team to prioritize the top loan examples, including some select complex scenarios. Team members should document the testing plan and allow for sufficient testing time in the project schedule. Holding testing events where power users work in parallel through the different scenarios helps expedite the testing process and provides immediate collaborative feedback. The project leader facilitates the process, tracks the results and documents the issues until resolution.

PITFALL #4:

Poor User Training

Preparing users for a new system is never easy, but practice makes perfect, and when it comes to roll-out readiness, everyone must put in the practice.

Avoiding the Pitfall

Keeping up with daily production is difficult enough, and learning a new way of working adds a level of complexity. Allowing the team enough time to gain a basic proficiency with the new system cannot be overstated. Financial institutions need to recognize the effort involved in the training effort across the enterprise and intentionally limit the number of initiatives in flight during the go-live timeframe.

The project team should have a very specific training plan that includes well-rounded use cases to be completed (products, borrowing structures, collateral, approval scenarios, etc.).

Each new user should be assigned a specific set of activities, based on role, to complete before being allowed to go-live. As with the testing scenarios, the progress must be tracked by the project leader and the progress reviewed for accountability by the project team. This is a good time to employ the super-users again to shepherd the users in their functional area. The tracking part is key to ensure that the users aren't just going through the motions.

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PITFALL #5:
Lack of a Go-Live Support Structure

At the point of go-live, failure to have a very specific support network finds many institutions ill-prepared. Even with training, end-users will encounter many new scenarios about which they will have questions. Trying to field all of the questions with just the system administrator will bottleneck the launch of the new system and lead to frustrated end-users.

Users in every function should be connected with support "buddies" and alternates on the power-user team.

Avoiding the Pitfall

In preparation for go-live, the power-user team should use what they learned from the testing and be the focal point for generating quick reference "tip sheets" and anticipated FAQ documents. These materials should be placed in an online collaboration spot where they can be updated and disseminated quickly to all users.

Another important duty of the power-user team at go-live is to act as the front-line support team. Users in every function should be connected with support "buddies" and alternates on the power-user team. This support structure should be documented by the project leader and kept current.

At go-live, system administration will be extremely busy, so devising a strong issue-logging and escalation process will be important. End-users should be trained to use their support buddies first to triage support requests rather than going directly to a system administrator.

PITFALL #6:
Implementing Too Much, Too Soon

A common dilemma financial institutions have when preparing to implement a commercial loan origination system is determining the roll-out strategy. Implementing too much, too soon can have disastrous effects on both line units and clients.

When performing a staged roll-out, a best practice is to ensure the system is rolled out from beginning to end, process-wise.

Avoiding the Pitfall

Two components of a roll-out strategy need careful consideration. The first is determining the amount of functionality to deploy out of the gate. The functionality that was prioritized using performance measures during the selection process should be revisited at this point. Integration with the core platform may be essential, but integration with other systems may not be necessary right out of the gate. Trying to do so could delay the launch of the system.

The second part is identifying how widespread the launch will be. Will the launch encompass all locations at once or be done by region or specific locations? The support team should be unified in this strategy.

When performing a staged roll-out, a best practice is to ensure the system is rolled out from beginning to end, process-wise. In other words, the system should be rolled out from application through closing for the chosen stage. If the roll-out stage is done by region, the entire process should be rolled out for that region. This will ensure that all the requirements of the loan—from front to back—are kept in mind and bad habits are not formed by producing incomplete work.

PITFALL #7:

Poor Communication After Go-Live

Institutions should never be fooled into thinking that once a system is live, the hard work is done. In fact, the work has just begun. Another key area where financial institutions may stumble is communication, and rarely is there too much. A solid implementation plan must have a very intentional communication plan, especially once the system is live.

A best practice is to continue these all-user meetings monthly to review progress on performance metrics and discuss ongoing updates and improvements.

Avoiding the Pitfall

Prior to go-live, the project leader should make and communicate a plan for user meetings that include everyone using the system. These meetings should be held once or twice a week immediately after go-live, follow a very structured agenda, and last no more than 30 minutes. This is not a time to solve issues but rather highlight known issues, hear about new issues and cover/demonstrate the top "fixes" and tips as well. These updates should be posted on the project collaboration site. As users become more familiar with the system and critical issues start to taper off, the frequency of these meetings can be reduced. A best practice is to continue these all-user meetings monthly to review progress on performance metrics and discuss ongoing updates and improvements.

The communication plan should not be limited to just the internal project team but should also take into consideration ongoing vendor relationships. The project leader and system administrator(s) should plan to meet with the vendor support representative on at least a weekly basis after go-live and continue regular communication on an ongoing basis.

Conclusion

Preparing for the implementation of a commercial loan origination system starts with good organization at the beginning of the project. The foundation is set by building a solid team and clearly defining the objectives and measures of success. Once the foundation is set, financial institutions can improve the odds of success significantly by anticipating the seven common pitfalls, putting plans in place to avoid them, and learning from the lessons where others have stumbled.

About This Report

This report is one of a three-part series on Commercial Loan Origination Systems, including:

PART 1

Evaluating Commercial Loan Origination Systems:
Defining Performance Drivers and Financial Impacts

PART 2

Selecting an End-to-End Commercial Loan Origination System:
A Proactive Approach Drives Superior Results

PART 3

Implementing a Commercial Loan Origination System:
Seven Common Pitfalls and How to Avoid Them

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