

Baker Hill Case Study

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Turnaround Efficiency at Northeast Member Business Services Outperforms Competition

Applications entered, scored, underwritten and decisioned before rest of market

Challenge

"Business lending sounds easy until you get into it," says Rick Slater, Chief Operating Officer at Northeast Member Business Services. Despite the complexity of business lending and being headquartered in the highly competitive northeast region of the country, Northeast Member Business Services (NEMBS) has successfully leveraged a scoring model and automated origination to compete – and win – against other area small business lenders, including banks.

NEMBS was the first small business lending CUSO in the northeast. Because of its status as the first in the region to serve the small business market, a significant amount of groundwork had to be put into place before small business lending could begin its course. Credit unions had to be educated on credit scored small business loans, develop policies, and work with credit union regulators who were unfamiliar with credit scoring.

Yet another hurdle to be jumped, training manuals created from scratch were used in extensive training developed for frontline staff. "We realized it was necessary to train, train and train again. Effective training created an atmosphere of comfort for the

branch staff and the small business lenders."

Finally, highly motivated lenders who would spread the products into the community -- a community that was not aware the credit unions could compete effectively in the business market -- had to be recruited for this new effort.

NEMBS aimed at three key areas in order to be successful in business lending: a turnaround time that beat local competitors; the utilization of automated scoring to replace judgmental decisioning; and an Application Service Provider (ASP) model that would provide a tool to enter applications at the point of contact.

Understanding that members want an answer to their loan requests quickly, NEMBS felt that implementing an ASP origination model to improve efficiency was the first key to their success. An ASP model allows applications to be entered, scored, underwritten and a decision delivered back to the member very quickly.

"Members want an answer quickly," explained Slater. "Our average turnaround time from application to funding, for a business assets secured or unsecured loan, is six business days, but it can be as fast as two days. Real

"We're striving to be the model in the credit union industry on how to grow small business portfolios safely, effectively and profitably. Our advantage was starting with a clean canvas and painting it as we knew it had to look."

- Rick Slater,
Chief Operating Officer

estate loans take a bit longer, but we're still able to beat the market's expectations."

Turnaround times received an additional boost through the use of automated scoring. Having successfully used a scoring model at a previous institution, Slater knew this piece of the puzzle was crucial. "We use a CUSO scoring model, with one cost center that is leveraged for other cost centers."

The impact on credit quality was significant. "Looking at portfolio growth, with set criteria, a scored portfolio can only exceed the judgmental part." Judgmental underwriting often overlooks the propensity to repay, one of the bedrock tenets of scored

PROFILE

CLIENT

Northeast Member Business Services is a credit union-owned CUSO providing member business lending support and service to credit unions throughout the northeastern United States. Headquartered in Keene, New Hampshire, NEMBS currently serves ten credit unions with more than \$4 billion in combined assets and specializes in small business term loans, lines of credit, some with SBA Express guarantees, and commercial real estate loans.

CHALLENGE

- Increase focus on origination and underwriting, and realize greater success with credit scoring.
- Improve turnaround efficiency and underwriting consistency in a new industry.
- Create sales mentality to drive sales through branches.

SOLUTION

Baker Hill's Bank2Business® small business loan origination solution.

RESULTS

- In seven months, increased small business application flow to \$1 million per week.
- Average loan size in excess of \$100,000.
- No delinquencies.

decisioning. "It's tough to do, but it's always better to stick to your guns on the proven scoring models rather than make a subjective choice based on judgmental factors," admitted Slater.

And lastly, because faxing or emailing information to a central location to be re-keyed was not an efficient use of time, entering applications at the point of contact was also a must. Said Slater, "Centralization helped us improve our underwriting consistency for this new credit union line of business."

Solution

When it came time to evaluate technology solutions, NEMBS looked at a couple vendors who would build a custom system and supply the analytics, "but the upfront cost was prohibitive." NEMBS saw the value in Baker Hill's ASP model, so Baker Hill's Bank2Business® was the chosen solution.

Bank2Business is a hosted service that uses browser-based technologies to manage the complete small business loan application process.

"With Baker Hill, the 'per application' fee is higher, but there's a much lower barrier to entry and the implementation is short and easy."

IT staff requirements are minimized, and updates and customizations costs are eliminated with an ASP model like Baker Hill's Bank2Business.

"With an in-house system, when you run into a problem, you have to fix it yourself; with an ASP, you simply move to another machine and pick up where you left off."

Results

Credit unions have been providing consumer loans for years, but the desire to move into the more complex small business lending arena made sense. "A year ago, none of our credit unions was engaged in business lending. Now, we are processing an average of \$1 million per week, with sizable growth expected after the first of the year. The credit union CEOs are fully supportive of the product and are ceaselessly impressed by the speed, consistency and responsiveness of the solution."

"The ability to give a member a loan decision in a few days reduces competitive price pressures," Slater continued, "and creates the opportunity to collect origination fees to covers costs for loan documents, UCC filings, application costs, title searches, etc."

"Automating the workflow process allows us to focus on the next task, creating a sales mentality within the credit unions themselves. Showing the staff the ease with which Bank2Business can be used to input applications is a real plus in the training of personnel accustomed to handling consumer loan issues. We train and re-train in order to get deal flow moving and keep it at a high level."

"Bank2Business has been a part of our organization since its inception. Our employees' appreciation for its capability grows almost daily. Lenders can get information for themselves on the fly, or input applications from a business owner's computer -- which gives us a tremendous competitive edge."

Slater concluded, "We're striving to be the model in the

credit union industry on how to grow small business portfolios safely, effectively and profitably. Our advantage was to start with a clean canvas and paint it as we knew it had to look. With streamlined origination, closing, boarding and servicing processes, we believe our CUSO will be the model for others to copy. And as we grow and add more products, we intend to continue to exceed our customers' expectations."

About Bank2Business

Bank2Business is a hosted service that uses browser-based technologies to improve the small business loan process. It manages the complete application process -- from inception through document preparation, to boarding and loan servicing. Bank2Business uniquely brings together the leaders in small business lending (Baker Hill) and predictive credit modeling (Fair Isaac) in one complete solution.

In 2005, Bank2Business processed an average of 1000 applications each day, totaling close to \$7 Billion in loan requests. Application up-time was 99.95%.

About Pat Spencer

Pat Spencer is the credit union practice manager for Baker Hill. Prior to this position at Baker Hill, Pat was the assistant vice president and manager of business services for a credit union with \$700 million in assets. Pat regularly shares his business lending and technology expertise by speaking at credit union industry conferences and writes articles for credit union trade publications.

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Baker Hill has been focused on the financial services industry, delivering solutions that address business process needs and working as a trusted advisor to its clients for more than two decades. Baker Hill understands lending processes, knows how to implement technology to enable those processes, and has a long history of client success from which to mine best practices.

More than 1,100 financial institutions in all segments have drawn on the company's business expertise to improve critical processes, and have chosen Baker Hill's relationship management, credit origination, and portfolio risk management solutions as their enabling technologies. For more information, visit www.bakerhill.com.



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