How to Implement a Successful Loan Origination Project

Linedata

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The initial focus for a loan origination project is typically related to the selection of a software solution and a target operating model. However, the true key to success is establishing a project management foundation to support the initiative. You can select a best-of-breed solution and operating model, but if your project implementation fails, the organization is exposed to credit, operational and reputational risk.

The implementation of a loan origination system is more than just a technology project. The impact on the overall lending, credit and operational groups can be extensive from process changes (including potentially re-engineering processes), organizational changes, policy changes, along with technology changes.

Significant benefits and ROI can be achieved when implementing a loan origination system which include:
- Monitoring and management of operational, credit and reputational risk
- Regulatory compliance
- Revenue growth and expense control
- Process transformation and optimization to gain efficiencies
- Reduced training costs and increased employee satisfaction
- Digital engagement of customers to retain and gain customers
- Better data and data access for decision making and adapting to market needs

Linedata's experience with financial institutions of various sizes, geographies and lending lines of business has allowed us to gain insight into the success factors for the implementation of a loan origination system. To help achieve the objectives of the loan origination project, Linedata has identified five key critical success factors to be considered.

1. Establish a business case

The business case lays out a framework for the benefits and objectives the organization is planning to achieve and provides the operational blueprint for the project. With a clear business case, the project team can validate business requirements and processing designs against the business case. If a key objective is to free up customer-facing employees from administrative tasks so they can focus on sales and service, for example, that objective can be used to help drive decisions of who does what within the new target operating model. Another common goal is for organizations to maximize their resource efficiency by reducing the time and touch for lower dollar (thus lower risk) transactions. In that case, the processing design decisions should be more focused on automation of tasks and activities such as adding customer self-service portals, pulling credit bureaus and evaluation of the borrower and co-borrowers based on scorecards and ratio coverage criteria.

The business case can help drive an overall strategy for the project. If the objective is to adopt best practices from a vendor solution used by other financial institutions and only maintain unique practices where a business or competitive advantage in the market is achieved, this would provide the criteria for evaluating the priority and impact of user business requirements. In doing so, costs, the implementation timeline and risk associated with the project can be reduced.

2. Determine the executive sponsor and project governance

The crucial role of executive sponsor is not only the financial backer of the project but also the top advocate. The executive sponsor can speak to the importance of the project and how the project positions the organization for growth, improvement and opportunity. An encompassing project governance structure is also necessary to provide the framework required for making critical decisions and resolving issues that arise during the project lifecycle.

While a well-structured project plan is a critical component of the project, the project governance is key to the execution and evolution of the plan. Resources from both the vendor and the financial institution would play key roles in the project governance and share in the overall responsibility for maintaining scope, schedule and budget, managing risks and issues, resolving conflict, and meeting the documented project objectives. The governance structure should consist of multiple layers to address day-to-day issues along with overall initiative considerations, including a project manager; the project team, program management, executive sponsorship and a steering committee. The key objectives of the governance structure are to:
- Maintain focus on the business case goals and objectives
- Manage and monitor progress (schedule and budget) on a regular basis (weekly, bi-weekly and monthly)
- Help establish and maintain a manageable scope
- Identify and mitigate risks
- Remove obstacles to achieving benefits
- Build partnerships at multiple levels (front line, mid and senior management) to help improve communication and strategic collaboration even after go-live

3. Create a manageable scope

Getting the right balance of scope is important. Adding too much scope, particularly in an initial phase, could delay the organization and user communities from seeing value from the project efforts. An organization can go live with a limited scope to achieve initial benefits that help provide the bandwidth, buy-in and momentum to build on that foundation through subsequent phases and roll-outs. Focus on the most common needs (the 80%) while leaving uncommon needs (the 20%) for more manual or process-based procedures. If there are multiple lines-of-business that are intended for the project, consider focusing on one or two lines of business to establish a foundation - particularly if the fulfillment and operations processing is the same among multiple lines of business. Common processing, lessons learned, and organizational support (training, help desk and coaching), can benefit the additional business lines.

It's also important to scope required and desired integrations. Prioritize integrations that provide the biggest return on investment by reducing manual work, increasing efficiencies, and reduce risk. Phasing in integrations can help achieve a more manageable schedule and cost. Initial integrations should focus on areas such as:

- Obtaining current bank information available for analysis with a batch integration from the data warehouse to achieve a 360 view of the borrower and their relations
- Passing approved loan information for legal documentation with an integration to a Document Preparation System
- Pulling credit bureau scores
- Integrating into an Enterprise Content
- Management system for document retrieval and storage to align with corporate retention policies
- Capturing of data to allow for analytics to determine performance and risk metric for automated reviews, analysis and decisioning

4.Enlist organizational support and empower the team

Implementing a new loan origination process and solution impacts many groups and departments. The composition of the project team needs to represent not only the organization overall (project governance along with departmental management), but the day-to-day needs and concerns for all the end-users (front, middle and back office). However, there is a fine line between the right balance of resources to represent these end user groups and having too many participants.

Sometimes the thought is that everyone should be included. However. too many resources on the project team can lead to schedule issues due to a lack of timely decisions (as the project moves to 'decision by committee') and issues coordinating all resources and their inputs. The team members must also be empowered to make detailed decisions in support of the strategies and objectives defined by the business case. If team members are not empowered to make decisions, the implementation schedule will be extended as the design process has to engage multiple layers for approvals on even small business designs. Also, user adoption may be impacted as users will feel that they had no input on their day-to-day activities and job performance. The main areas where representation on the project team needs to be considered are:

- Front Office – Relationship managers, their coordinators and sales management
- Middle Office – Credit analysts, underwriters, approvers, and risk or compliance departments
- Back Office – Fulfillment and operations
- Cross-functional departments – Audit, legal, IT, HR and training

5. Develop communication plans and change management

A critical success factor in a loan origination project is preparing the organization and its user communities for change. Setting the tone, message and expectations are critical to the buy-in and acceptance of not only the new software but the new policies, procedures, and organization structure. Key questions to be addressed:

- Why is the change needed?
- What issues are being addressed?
- What are the objectives of the organization in making this change?
- What's in it for me? What are the benefits to individual classes of users?
- When are the changes coming and how will they be implemented?

An effective communication plan is more than just application training. It is a communication strategy that builds throughout the implementation process so that the message can be delivered multiple times through various communication channels with an increasing level of details and specifics.

Some frequently used communication and change management options:

- Introduction to the project (benefits, changes and timelines or a quick demo later in the project) at groups meetings
- Newsletters or a communication website for the project
- Updates from core project team members to their respective groups
- On-demand demos and overviews to provide an introduction and allow users to gain comfort at their own pace
- Executive presence at major project events or milestones (testing, training, etc.) showing support and sponsorship for the project
- Role-based training that highlights the benefits of changes being made

Laura Grudzien is the Senior Director of the Lending Solutions Group at Linedata. With nearly 20 years of experience managing successful implementation projects, Laura is a valuable resource to financial institutions working with Linedata. Learn more about Linedata's solutions at www.linedata.com or by emailing us at getinfo@linedata.com.