

Analytics and Reporting: Efficiency, Decision Quality, and Portfolio Profitability

Modern, cloud-based loan origination solutions (LOS) capture and generate volumes of applicant, process, and portfolio data. When properly analyzed, that data yields insight into nearly every aspect of the loan origination process. The benefits of analytics include a detailed understanding of applicant attributes, the ability to track emerging trends, identification of inefficiencies, and discovery of factors that impact portfolio performance.

Analytics Fully Integrated With the LOS

Two factors prevent lenders from realizing the benefits of analytics. First, their LOS platform does not include analytics capabilities. Second, analytic skills are limited or non-existent within the firm. Both of these challenges are easily overcome when analytics fully integrate with the LOS.

With analytics fully integrated on the LOS platform, there's no need for custom development or integration with third-party analytics. Lenders can conduct their own analyses without keeping a data scientist on staff. Fully-integrated analytics let lending professionals tailor dashboards and reports for their specific organizations without pricey custom coding. Once configured, trend-tracking reports can be generated automatically. Dashboards can provide near-real-time activity summaries, as well as allow investigation of loan details.

Assess Loan Origination Process Efficiency

Analytics let you identify areas of inefficiency in the loan origination process, investigate the underlying causes, and implement changes to reduce bottlenecks. The ability to effortlessly capture

process information, analyze it, and monitor trends over time lets lenders find new ways to improve loan origination efficiency. A few examples of the nearly limitless ways to assess efficiency include:

- Evaluating underwriter productivity by calculating the average time between an application appearing in the underwriter's queue and the first major lending decision made by the underwriter;
- Calculating the average turnaround time for applications based on the dealer to determine if you are meeting dealer service level agreements (SLA); and
- Tracking historical application volumes with the goal of accurately allocating appropriate underwriting resources to accommodate changing demands.

The wealth of data and ease of analysis lets lenders explore nearly every aspect of their practice. For example, an improvement in capture ratios may be tied to overrides or exceptions that are increasing portfolio risk. When average loan processing costs seem high, modifications to credit policies may result in a greater number of auto-approvals that reduce processing costs without increasing risk.

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Regular reporting and comparison of loan process metrics is the surest way to achieve greater LOS efficiency.

Analytics Can Keep You Compliant

Regularly-run analytical reports provide high-level summary information regarding lending decisions. You can also drill down to review individual lending decisions. While most lending decisions should comply with regulations, analytics reports can alert you to anomalies such as:

- An underwriter who declines an unusual number of subprime applications with inconsistent or questionable reasons for the declines;
- Loan approvals with rates, terms, or down payments that are noticeably higher than other loans with similar applicant attributes; and
- Loans granted to military personnel that fail to meet the Servicemembers Civil Relief Act (SCRA) requirements.

Analytics can quickly identify decisions that deviate from established credit policies. The inconsistencies may be the result of exceptions or overrides on the part of an underwriter. The problem could be interest rates exceeding state usury laws, dealer markups or finance charges that violate legal limits, or the number of payments exceeding prescribed limits—perhaps done with the intent to capture the loan by making the monthly payment more manageable. Without analytics, these exceptions would not be recognized.

Analytics Provides Insight Into Decisions That Affect Portfolio Performance

Portfolio profitability is the result of many loan

origination decisions made while processing thousands of loan applications. Analytics provides insight into the quality and consistency of these lending decisions and their eventual effect on portfolio profitability. With analytics, lenders can assess portfolio performance at macro- and micro-levels, tracking developing trends, discovering correlations between credit policies and profitability, and delving into the details of individual loans when

The Value of Fully-Integrated Analytics

We can list the benefits of fully-integrated analytics. However, the actual experience of a client is more compelling. One national lender's home-grown approach to analytics involved downloading data from their warehouse and using spreadsheets, macros, and queries developed by in-house Excel and Access power users to create reports. This practical (under the circumstances) approach to analytics, however, was fraught with problems. Data quality and data definition inconsistencies led to differing and confusing analytical results. A data glossary was needed to understand how data were derived and what they meant. Downloading and analyzing the data to produce the reports was a protracted, manual process. With time, their home-grown solution demanded ever-increasing IT staff attention.

Finally, a decision was made to adopt a modern auto LOS with fully-integrated analytics capabilities. The results speak to the value and benefits of analytics fully-integrated with LOS.

- No need to contend with data quality and data glossary issues. Integrated analytics understands the data sources used to conduct analyses and produce reports.

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- Business users (not data scientists) configure analyses and reports via an intuitive “click and select” user interface. Reports are easily customized to provide information relevant to various roles and responsibilities.
- Near real-time reporting provides up-to-the-minute reports on application volumes, process efficiency, turnaround times, and service level agreements.
- Easily determine how often credit policy rules are overridden, and by whom.

Integrated analytics let this lender identify decisioning bottlenecks, determine the reasons causing delays, and when feasible, replace manual decisions with automated decision rules to improve decision quality and consistency. For certain tiers of qualified applicants, auto decisioning increased by 60%, resulting in an improved booking rate.

Summary

Modern cloud-based loan origination solutions capture and create a wealth of application, process, and portfolio data. Analytics fully integrated with LOS makes it easy to unlock the value of these data, providing insights that can dramatically improve process efficiency, decision quality, and portfolio profitability. In the current (and future) lending climate, analytics is a critical tool for any lender intent on achieving and maintaining a profitable practice.

defi SOLUTIONS

defi SOLUTIONS
1500 Solana Blvd, Suite 6400
Westlake, TX 76262

+1-800-926-6750

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