The Need for Speed
by Diane Franklin

When Members Apply for a Loan Online, instantaneous results mean everything.

The Internet age has drastically changed consumers’ expectations of what is meant by the word “fast.” Just look at what has happened with consumers who are shopping for a loan. In the pre-Internet era, financial institutions could satisfy consumers by granting loan approval in a matter of days. Now that many consumers are applying for their personal, auto, home-equity or mortgage loans online, they no longer have to wait days or even hours for a loan approval decision. They can now receive their loan approval in a matter of minutes or, in some cases, even seconds.

Credit unions that wish to maximize their lending growth will give their members the convenience of applying for loans online. But it’s not enough to have a static loan application somewhere on their Web site. The online loan application process should be convenient and user-friendly, with the ability to return an immediate decision to the potential borrower. A population that has so completely embraced Internet technology will expect nothing less.

“People who use the Web expect 24/7 access to their credit union,” states Robert Surridge, Senior VP/Lending Division for Digital Insight Corp. (www.digitalinsight.com) of Calabasas, Calif., the leading Internet banking software supplier. “They’ve been re-educated and retrained in their expectations that ‘This credit union never closes.’ ”

Surridge explains that online lending allows credit unions to capture and service members without having to match the brick-and-mortar presence of other financial institutions. “Having online lending solutions drives business from members that would otherwise go elsewhere. Offering online lending is a generator of new and/or increased business for the credit union.”

Online lending solutions also make good business sense because of the cost and time efficiencies they provide. To illustrate this benefit, Surridge points to an April 2001 Gartner Inc. study, which found that loans originated through the Internet cost 20 to 30 percent less than those originated through traditional means. This tendency is especially important in a lending environment where rising interest rates and increased competition are evidenced.

“The spreads are getting thinner and thinner,” Surridge says. “With interest rates going up, the more cost-effective you can be in putting the loan on the books, the better.”

Having a robust online lending solution is important for credit unions that wish to stay competitive in a marketplace that is crowded with many lending options. “It’s a must-have in today’s environment,” states Brooke Strohman, VP of Technology for CRI Systems (www.CRIsystems.net) of Elkridge, Md., a fully owned subsidiary of Creditor Resources Inc. (www.creditorresources.com) that offers technology solutions to more than 200 credit unions in North America.

Strohman adds that the last several years have brought about growing sophistication in online lending solutions. “About six to eight years ago, many applications were passive. The member filled out a form, and the credit union reviewed it before sending out an approval by email, sometimes days later. However, the technology has evolved to a more sophisticated online solution, in which the application is interactive and the approval decision is made instantly.”

Given this growing sophistication, Surridge points out the importance of having an online lending solution that will stack up well against other online options in the marketplace. Such competition includes not only various local options but also well-promoted national options like LendingTree.com.

“Credit unions typically have the first crack at the loan...
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with their members,” Surridge says, “but loyalty is only skin deep. If they are not the quickest and most convenient solution, they’ll lose out to someone else.”

From his vantage point in the online mortgage-lending category, Scott Happ contends that credit unions have been progressive in their acceptance of online lending technology, with a significant percentage (upwards of 25 percent) adopting such solutions.

“Many credit unions were early adopters of online banking, and we’ve seen the same thing happen in the online lending arena,” states Happ, president/CEO of Mortgagebot LLC (www.mortgagebot.com), the leading provider of Internet-based loan origination solutions for the mortgage-lending industry. “Online lending is totally compatible with their mission to service their members. Credit unions recognize that their members’ preferences are changing—many want the convenience and accessibility of online lending solutions.”

According to Happ, credit unions that adopt online lending solutions find a large percentage of members quickly migrating to this method of loan approval. He estimates that credit unions can expect to see 15 to 20 percent of members using the online application independent of any help. An additional 20 to 30 percent may work with a loan officer or member service representative in making an online mortgage loan application.

“Credit unions that use this [online lending] suddenly find half of their loan origination happening on the Web,” Happ says. “It’s like ‘Field of Dreams’: If you build it, they will come.”

Mortgage-Lending Solutions

In the online lending solutions arena, typically there are vendors that specialize in the mortgage sector and others that specialize in consumer, auto loans and home-equity lines of credit. That means that credit unions wishing to provide online loan application convenience in both sectors most likely will be dealing with two online lending software providers.

Mortgagebot, based in Mequon, Wis., is the dominant application service provider for the online mortgage-lending industry. Its area of expertise includes first mortgages, mortgage refinances, home equity lines of credit and other mortgage-based products. The company’s client base covers more than 650 financial institutions, half of which are credit unions. Of the top 100 credit unions, 43 are Mortgagebot clients, but the company also serves more than 35 credit unions with assets of below $200 million.

“We pride ourselves on our ability to scale the solution up or down,” says Happ, explaining that the monthly maintenance fee of $1,000 to $3,000 makes the technology an affordable option for all sizes of credit unions.

Clients of Mortgagebot utilize the company’s award-winning online lending platform, called PowerSite™, which is a Web-enablement solution that offers seamless integration to loan origination systems. This private-labeled solution allows financial institutions to completely leverage their brand and customer relationships.

“We’re an application service provider that hosts the solution on our site, meaning that the credit union doesn’t have to worry about installations or downtime,” Happ reports. “When members click on the online approval form, they go to our site but never feel as if they have left the credit union’s site.”

In addition, Mortgagebot offers personalized Web sites for the credit union’s loan officers. “We personalize the site with the loan officer’s photo, bio information and favorite links,” Happ explains. “It’s like a business within a business. While going through the various stages of the Quick Quote application, the member never leaves that loan officer’s site.”

One of the advantages of PowerSite is its versatility. Credit unions can use the software for online applications. They can also use it to take applications from members who come into the branch or phone in to the call center. “It’s not just the member using the system; it’s the member service representative and the loan officer as well,” Happ explains. “This is referred to as enterprise-wide deployment. Credit unions have taken a lead role in embracing it.”

At Technology Credit Union (www.techcu.com), with assets exceeding $1 billion, the Mortgagebot program has been in place for four years. “We rolled out our Mortgagebot PowerSite in September 2002 to much success, and it enabled us to meet our online mortgage-lending goals,” reports Michelle Edwards, Assistant Vice President/Mortgage Originations at the credit union, which serves 72,000 members and has a community charter covering six counties.

After a downturn in online approvals that coincided with the end of the refinancing boom, Tech CU was able to increase online approvals by maximizing back-office efficiencies, relaxing some of its underwriting filters and updating its Web site so that potential borrowers could reach the online mortgage application in one click rather than three. These efforts had the desired effect. From September 2004 to September 2005, the San Jose, Calif.-based credit union experienced an 81 percent increase in submitted loan applications and a 49 percent increase in loans that received an online approval.

As a means of maximizing efficiencies, Edwards’ team of commissioned loan originators now enters loan applications directly into PowerSite rather than into the credit...
union’s loan origination system. While two of the six loan originators work internally, the others go out in the field as a convenience to members, meeting them at coffee shops, public libraries, their homes or their businesses. They have a laptop so they can use the PowerSite program to expedite the loan application process, and they typically have a pre-approval within the first few minutes of the interview. Tech CU’s members, many who work in the technology field, expect this type of service.

“In the Silicon Valley, where we’re located, people know how to use the Web,” Edwards explains. “If an originator had to take the time to fill out a 1003 loan application, then we very likely would lose the loan.”

**Consumer-Lending Solutions**

Mirroring the mortgage sector, speed and convenience are the key attributes to the online approval of consumer loan products. Digital Insight offers an integrated suite of secure consumer-lending products that allow financial institutions to offer quick online approval to consumers seeking personal loans, auto loans and home-equity lines of credit.

Surridge reports that the company’s browser-based technology makes the online lending process quicker than ever before. “It typically takes one to three minutes to fill out the application, then about 20 to 30 seconds to generate the approval,” Surridge reports. “Within three to four minutes, the member knows whether they have approval. We then send all of that information into the credit union’s host system. It’s completely seamless.”

With the Digital Insight suite of products, the credit union has the flexibility to set the conditions of the approval. “We use the credit union’s decision parameters and their underwriting guidelines,” Surridge explains.

Digital Insight’s lending solutions also can make the loan application experience more efficient for members who walk into a branch or who phone the call center. “That’s the beauty of it,” Surridge explains. “You can unify your entire financial institution. When a member comes into a brick-and-mortar location to apply for a loan, it’s the same technology running on the same browser. That leverages into a cost-effective solution.”

While Digital Insight’s client base is split 50/50 between banks and credit unions for all of its technology products, credit unions make up 80 percent of the company’s clientele for online lending solutions. According to Surridge, the company’s lending solutions are affordable for all sizes of credit unions—from under $100 million in assets to more than $10 billion. “We have a monthly maintenance fee for the full loan origination system that is tied to the asset size of the credit union,” he reports.

One of the advantages of the Digital suite of lending products is that they provide a completely integrated lending platform. This integration helps to ensure that efficiencies in the loan approval process are matched by efficiencies in the back office. Again, it’s a matter of expectations, Surridge explains: “If the approval comes in two days, then five days for loan closure is OK. However, if the approval comes in 30 seconds, then expectations are higher for the loan to be closed much more quickly. As you turbo-charge the approval process, you also need to streamline the back-office procedure.”

System integration is a major benefit of CRI Systems, which features two interrelated software programs that provide smooth customized workflow automation of the lending, sales and business processes. CRIterionTM is a complete loan and deposit origination platform. InterLend™ is the company’s Web-based software that speeds up and simplifies the online loan application process.

“With our InterLend program, the decision is rendered within 30 seconds. The member completes six screens online, and once those are completed, they receive their answer,” Strohman reports.

A unique feature of InterLend is its ability to intersect with a credit union’s existing processes, meaning less work and less training of branch employees and an increase in revenues from loans and loan-related services.

Strohman notes that there are several things that a credit union should look for in an online lending product. One is integration. For instance, CRI Systems provides CentralLink™, a connectivity platform that provides integration for CRIterion, InterLend and third-party applications.

Another key factor is the customizability of the system. “We have the ability to customize our system to meet the individual credit union’s needs,” adds Brian Richards, Director of Product Management, explaining that the scalability of the system makes it compatible for every size of credit union—large or small.

Finally, Strohman stresses the importance of having the same lending parameters in place, whether the loan approval process takes place online, in the branch or via the call center. “Sometimes, this is difficult for credit unions to achieve, because the credit union may be using a third-party vendor for online loan originations while managing the in-person loan originations themselves. One system may be more robust than the other, and they may be using different sets of rules. Our system does away with that problem. With CRIterion, all forms of loan origination are run by the same set of rules. The key is to provide a common member experience, regardless of whether the member is applying online or in the branch. You shouldn’t have two different sets of parameters because of limitations in your loan origination software.”
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The advantages of system integration are the key reason Summit Credit Union (www.summitcu.org) recently transitioned to the CRI Systems’ InterLend platform for its consumer loans. Two-and-a-half years ago, the $90 million credit union based in Greensboro, N.C., added two separate online loan decision solutions—one for mortgages and the other for consumer loans. However, the credit union was using CRI Systems’ CRIterion lending platform, so the decision was recently made to switch to the InterLend program for online consumer loan applications. “It made sense because of the connectivity between the two products,” stated Sam Whitehurst, Summit FCU’s CEO.

Whitehurst sees online loan approval solutions as a means of providing better upfront service to its members while also adding efficiencies to the remainder of the loan process. “We wanted to provide our members with lending solutions that would allow for quick online approval,” Whitehurst explains. “That way, we could put the focus on closing rather than on the approval process.”

In addition, Whitehurst remarks that the CRI Systems’ online lending solution allows Summit FCU to expedite less complex loans, thus freeing up staff to concentrate on those that require more human intervention. “It helps us to get the easier-to-decision loans out of the way so that we can focus on the more complex ones,” he points out.

The Ability to Compete

Giving their members access to online loan approval puts local credit unions on a competitive footing with other local financial institutions as well as national lenders. “To be able to be in the game, you have to have the ability to take the application and lock in rates online,” Happ explains. “If you can do that, there’s a good chance you win the business.

Happ advises credit unions not to discount the advantage of being a local financial institution with strong ties to their members. “Of those consumers who research loans online, 25 percent start by checking their own financial institution’s Web site,” Happ says. “Credit unions should take advantage of that fact. Their message should be: ‘We’re here in your community; you know us. You don’t have to deal with somebody calling from clear across the country.’ ”

In addition, Happ encourages credit unions to stay personal in their marketing approach. “I don’t think a credit union needs to do any big media campaign to market this technology,” he says. “It should be done through newsletters and one-on-one relationships. Make sure your staff has an appreciation for the robustness of your solution. If your staff is excited about the solution, that’s the best marketing that money can buy.”

Another factor coming into play is the fact that so many credit unions are converting to community charters. According to Surridge, this conversion changes the way they market their online lending solutions. “With credit unions going to community charter, anyone who lives in the credit union’s market area may be interested in applying for a loan. This may change a credit union’s marketing, so that instead of putting the loan application behind the PIN (i.e., accessible only to members who have already entered their personal identification number), they are now putting that information in front of the PIN (i.e., on the home page or another portion of the Web site that is accessible without the entry of a member PIN).”

For credit unions just considering the online lending option, Surridge urges them not to become discouraged by myths in the marketplace. “Myth No. 1 is that the online loan application process attracts adverse applicants and is subject to a higher number of rejects. That’s incorrect,” Surridge states. “Initially, within the first 90 to 120 days, a credit union may experience a higher number of rejects, but eventually approval ratios become equal or higher for Web applications.”

Surridge also dispelled the myth that online loan activity only displaces brick-and-mortar business. “That is not the case,” he says. “True, there is some migration, but having an online loan approval process isn’t repositioning existing money and existing revenues. Ultimately, it supports efforts across all delivery channels to create new money and new revenues.”