servion
COMMERCIAL
LOAN RESOURCES

THE INSIDE VS. OUTSIDE APPROACH TO COMMERCIAL LENDING

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Loan growth is the most direct path to increased revenues for a community financial institution. Commercial lending, in particular, is an opportunity that's capturing the attention of many. Yet commercial lending is a complex enterprise that can put even seasoned lenders and their institutions at risk. Before an institution makes the strategic decision to expand its offerings through commercial lending, it needs to examine its internal resources to determine if it makes sense to manage the entire commercial lending process, or if it makes business sense to partner with a behind-the-scenes commercial loan resources vendor.

who are your people?

EXPERIENCED COMMERCIAL LENDERS WILL UNDERSTAND EXACTLY WHAT THEY'RE UNDERWRITING, ANTICIPATE PROBLEMS THAT AREN'T NECESSARILY OBVIOUS, AND WILL MITIGATE THE RISKS ENDEMIC TO THE MYRIAD COMPLEXITIES THAT DEFINE COMMERCIAL LENDING.

To become a successful commercial lender, an institution will likely need to make a substantial investment to identify and hire people with commercial lending experience. Experienced commercial lenders will understand exactly what they're underwriting, anticipate problems that aren't necessarily obvious, and will mitigate the risks endemic to the myriad complexities that define commercial lending. An example of such risk is an environmental problem with a property that is held as collateral. If such a property needed remediation and the borrower didn't have funds to provide for the work, the lender may end up owning a property it doesn't want.

Some institutions forgo hiring lenders with commercial experience by shifting consumer lenders into commercial lending roles and providing them with training. Straight line underwriters without commercial lending experience, however, may not be as able to anticipate problems as experienced commercial lenders. Therefore, transitioning people from consumer to commercial lending opens the institution to risk. An institution that opts to train consumer lenders to become commercial lenders are advised to ensure the head of commercial lending at their institution has extensive commercial underwriting experience because it's likely the people higher up the chain of command do not.

Even when it is feasible for an institution to hire experienced lenders, it may still want to consider the benefits of partnering with an experienced, behind-the-scenes commercial loan resources vendor, which can support all of the lending functions once the loan is sourced. A commercial loan resources vendor offers access to a team of experienced, talented, and knowledgeable individuals who provide a comprehensive financial analysis of each loan for adherence to specific policies and guidelines tied to commercial lending. With access to the combined experiences and wealth of expertise available through a commercial loan resources vendor, lending institutions gain the assurance that they will be minimizing risk and making informed lending decisions.

HIRING A VENDOR CAN BETTER ENSURE A MORE THOROUGH ASSESSMENT OF POTENTIAL RISKS.

Institutions that decide to hire talent and keep the entire commercial lending process internal typically do so because it allows for greater control. However, hiring a vendor can better ensure a more thorough assessment of potential risks. Seasoned commercial lenders who work for a commercial loan resources vendor will examine each potential loan transaction with objective eyes. They can break apart the components of a complex credit to gain a deeper understanding of the opportunities and the risks. One might call it a checks-and-balances service, or risk-mitigation redundancy. There is always the potential for a complex loan to fall outside the purview of staff.

what's the competitive landscape?

To be successful in commercial lending, an institution needs to look at how to maximize its processes. Will a request for a $50,000 semi-trailer loan be processed the same way as a $25 million data center? One borrower may provide a voluminous tax return that will need to be examined. What will happen if the lender doesn't understand IRS rules with regard to owning property inside a corporate entity? Once an institution begins to offer commercial loans, it will need to ensure its processes are standardized, it has the capacity to meet demand, and it has the experience in place to avoid fundamental flaws in underwriting.

Even with the right people in place at the institution, the benefits to outsourcing emerge. An obvious benefit is redundancy. Sometimes loan volume overwhelms staff capacity, which can fluctuate due to vacations, illnesses or family leave. Outsourcing is akin to having extra staff, but only when it's needed.

Further, the underwriting process is complex; for commercial lending it extends beyond the borrower's ability to repay, into valuations, risk mitigation processes that include appraisals, environmental analyses, title analyses, documentation, closing, monitoring and servicing, and in some instances, construction disbursements. A commercial loan resources vendor can provide lending institutions with a depth of expertise in all of these areas on demand, along with that all-important separation between loan production and credit servicing. An institution's team may deem a potential loan to be low risk and approve it. If it chooses to run the details of the deal past its vendor, it may well receive an assurance that its assessment was valid. It's possible, however, that the vendor might uncover unknown or hidden risks associated with granting the loan. With commercial lending such a high-stakes venture, why wouldn't a financial institution augment staff decision-making with the measured opinions of experienced, objective partners?

conclusion

Before a financial institution expands into commercial lending, it needs to conduct a thorough examination of its staff, resources, and workflow to determine how commercial loans will be sourced, who will originate, review, analyze, and service these loans over time. A commercial lending resources vendor should not compete with any lending institution to source loans. But it can effectively support the underwriting and servicing functions.

The decision to hire experienced lenders, train existing staff, or outsource some or all of the lending support functions often comes down to how well the lending institution is positioned to control risk. Though there are many factors to take into account when deciding whether to keep all commercial lending functions internal, a lending institution might also consider the additional value a commercial loan resources vendor provides to potential borrowers and to the institution itself. Operating behind the scenes, a commercial loan resources vendor adds a layer of analysis conducted by people who are exclusively focused on commercial lending. They can mitigate the possibility that some facet of the loan will become a problem that negatively impacts the lending institution's profitability.

ABOUT SERVION

Based out of Minnesota, The Servion Group works with credit unions and community banks across the nation. Servion Commercial Loan Resources, a business unit of The Servion Group, provides smart commercial lending solutions for lending institutions and their marketplace.

Along with personal service, complete confidentiality, local and national commercial real estate closing, and sound underwriting standards, we bring over 120 years of experience in the lending and servicing industry.

In a continued effort to help our owners/partners stay abreast of the current business lending trends, we created this whitepaper. If you are not a partner of The Servion Group and would like to learn more, please reach out to us at 651-631-3111 or check out the commercial loan resources information on our website at: https://www.myservion.com/CLR.