Bank Director.

Breakout 1: The Pit Stop Approach: Optimizing Efficiency in a Slow Loan Growth Environment

Joe Ehrhardt

Teslar Software

#A0BA24



Hosted By:

Joe Ehrhardt CEO and Founder of Teslar Software



Welcome!



Joe Ehrhardt

- 23 Years in Banking (Starting with Operational Efficiencies)
- Computer Engineer
- Expert in Cybersecurity & Lending, Driving Innovation in Operational Efficiencies
- Fintech Founder (Teslar Software)

Helping Banks Become More Efficient





On the Agenda

The Current Climate: Average Efficiency Ratios

• Dramatic changes in the lending environment and technology

Stop to Go Faster

• Just like in racing and cycling, bankers also need to prepare for the future today.

Where to Go Faster Today

 Robotic Process Automation, Credit Policy, LOS, and Portfolio Management

Future Efficiency Hurdles

• 1071 impact, AI/machine learning, and open banking

The Current Climate

Dramatic changes in the lending environment and technology

The Obvious

Bank Prime Loan Rate (WPRIME)



Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

Impact

Commercial and Industrial Loans, All Commercial Banks (BUSLOANS)



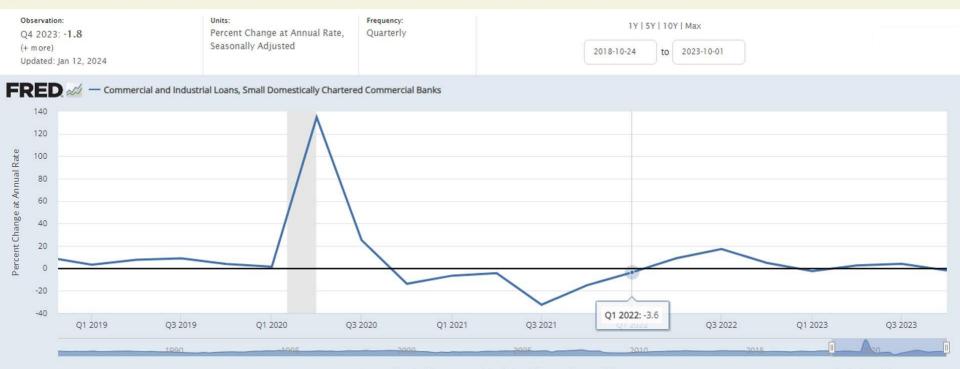
Impact

Commercial and Industrial Loans, All Commercial Banks (BUSLOANS)



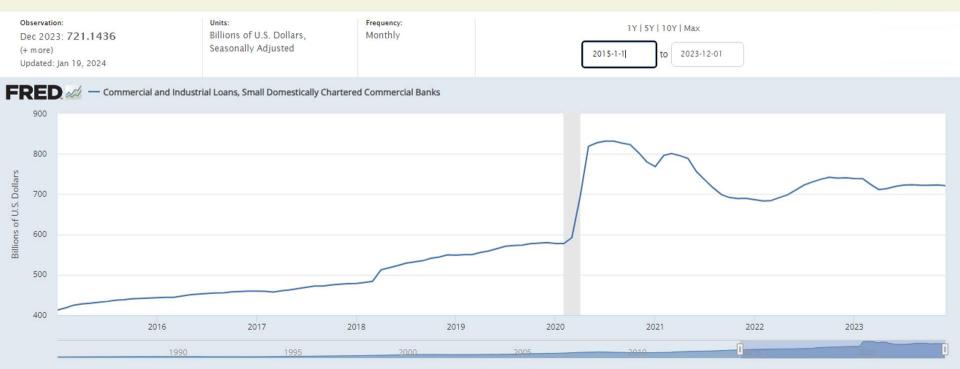
Pendulum Swings

Commercial and Industrial Loans, Small Domestically Chartered Commercial Banks (H8B1023NSMCQG)



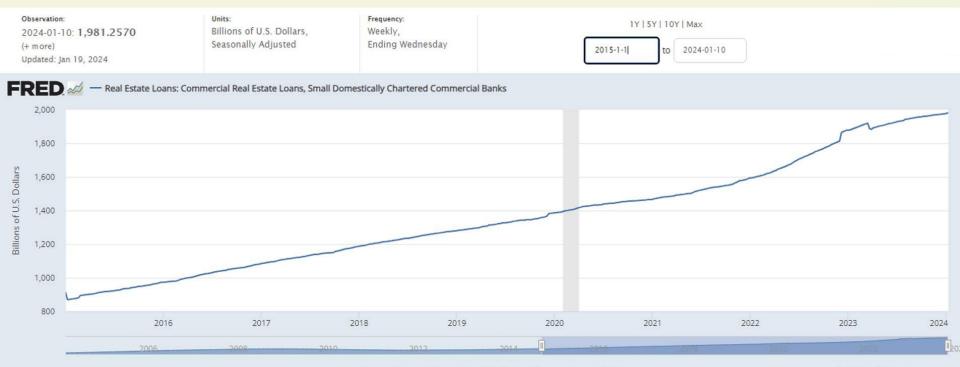
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Commercial and Industrial Loans, Small Domestically Chartered Commercial Banks (CILSCBM027SBOG)



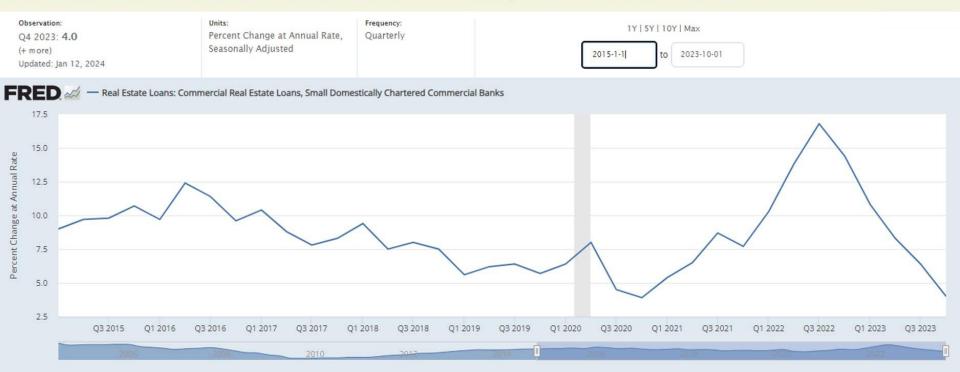
CRE

🟠 Real Estate Loans: Commercial Real Estate Loans, Small Domestically Chartered Commercial Banks (CRESCBW027SBOG)



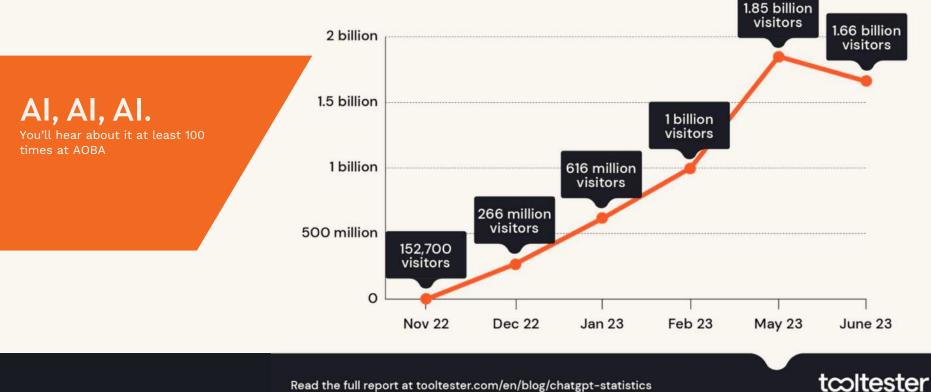
CRE Change

🟠 Real Estate Loans: Commercial Real Estate Loans, Small Domestically Chartered Commercial Banks (H8B3219NSMCQG)



CHATGPT STATISTICS

Change in ChatGPT website visitors since launch



Read the full report at tooltester.com/en/blog/chatgpt-statistics

Stop to Go Faster

Just like in racing and cycling, bankers also need to prepare for the future today.

Racing

* Castrot

Sanoan

MISH.

NextLAN

ORMULA

Snapon

NISSA

nismo

We all get this.

Cycling

Solid base to go fast.

ISSOT

Banking

Let's work smarter, not harder.

Where to Go Faster Today

Robotic Process Automation, Credit Policy, LOS, and Portfolio Management

Process Automation is a Must

Steps of Improvement

•Document the current process

•Process improvement (Process Reengineering)

•Workflows documented and in a digital system

•Automation of tasks (Robotic Process Automation)

Integrations

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Q Start	緣 Workflow	 				
10.00	Loan Forms					
Menu	ANNUAL REVIEW SHORT FORM					
~	COMMERCIAL LOAN DOCUMENTS					
Operations	Community Development Loan Checklist					
Z	✦ Consumer Loan Documents					
Links	→ CRITICIZED ASSET REPORT					
0	DRAW REQUEST - AG					
Admin	MORTGAGE LOAN DOCUMENTATION					
23	 Post Booking Modification Form 					
Config	SBA LOAN DOCUMENTATION					
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	MEDALLION GUARANTY LOG					
	➡ RDC Customer Application/Checklis	т				
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	BUSINESS ONLINE BANKING					
	 Cash Order and Shipment 					
	➡ Fee Waiver - Treasury Management					
	➡ INTRAFI (ICS) SWEEP					
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Treeview	🗠 Reporting	\odot				

Process Automation is a Must

How Does it Help?

•Optimized staff utilization (no need to hire)

- •Automate and standardize banking processes
- •Streamlined process management
- •Enhanced real-time monitoring
- •Improved regulatory compliance

	Expand All Items	Expand All Items				
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Z	➡ CONSUMER LOAN DOCUMENTS					
Links	→ Criticized Asset Report					
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User	Clear / Update / Waive Exceptions	\odot				
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Treeview	🗠 Reporting					

Credit Policy

Steps of Improvement

•Policy Review – checklists affect almost everything

•Clean up data and useless items that add noise

•Automate the process from customer to lender to analyst to operations

•Standardize goals and reporting while not under stress

Integrations

Туре	Category	Severity	
Final Title Policy	Credit	Exception	
Cert. of Good Standing	Credit	Exception	
Cert. of Good Standing	Credit	Exception	
Appraisal Proof of Delivery	Regulatory	Critical Exception	
Real Estate Contract	Credit	Exception	
Missing or Incorrect Information	Internal	Exception	
Death Certificate	Internal	Exception	
Promissory Note	Credit	Exception	
Partnership agreement	Credit	Exception	
Core Coding Error/Collateral	Collateral	Exception	
Core Coding Error/Collateral	Collateral	Exception	
Signed Financial statement less than 6 Months Old	Policy	Exception	

Credit Policy

How Does it Help?

Incentive plans and buy-in from lenders
Clean up something everyone in the process hates
Automate and standardize banking processes
Streamlined process management
Enhanced real-time monitoring
Improved regulatory compliance

Туре	Category	Severity	
Ŧ	7	1	
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Signed Financial statement less than 6 Months Old	Policy	Exception	

Portfolio Management (ALR)

Steps of Improvement

- •Create parameters for what gets one
- (this is harder than it sounds)
- •Automate the identification of ALRs
- (missing one is not optional)
- •Workflow process between teams
- •Automate tasks
- Integrations

oan Revie	Annual Lo						
Review Date: Next Review Date Customer Since:		None t:	Nature of Business: Home Inspection Participants: Participated Amount	Borrower / Joint Borrower: Handy Many Guarantors:			
LOANS	norman un un ontaine 17	11000 Mar 2010 77					
Current Officer	Origination Officer	Maturity Date	Available	urrent Balance	g Balance		Loan Number
JDE	JDE	\$46,753.00	\$0.00	500,000	500,000	\$	123
					500,000	\$	TOTAL:
EPOSITS							
Overdrawn 90	Overdrawn 60	Overdrawn 30	Average Balance	urrent Balance	lationship	Rela	Deposit Account
	0	0	\$1,102.00	\$300.00	Signer	S	22223
·	•		\$1,102.00	\$300			TOTAL:
		ated Debt Commitm		л .	nitment - Borro		Total
	500,000		\$		ndy Many	Hand	
LLATERAL	COL						
Value (\$)	Date of Evaluation	Source of Value	1	Collateral Description			Loan Number
	1/1/2023	Bank		E and Invoices			123
EXCEPTIONS				She or contract			
	Expired On	n	0	Severity	xception Type Severity		Exception Type
Approved by board,	1/1/2023		1/1/2023	1	L		LTV

What was the origioanl puporse:

Portfolio Management (ALR)

How Does it Help?

- •Never miss a review
- •Remove the dread
- •Optimized staff utilization (no need to hire)
- •Automate and standardize processes
- •Enhanced real-time monitoring
- •Improved regulatory compliance

					/ annaar E	
Borrower / Joint Bor	rower:		Nature of Business:			Review Date:
Handy Many			Home Inspection			Next Review Dat
Guarantors:			Participants:	None		Customer Since:
			Participated Amou	nt:		
2 2			an an an ann a	10 - 11 - 11 - 11 - 11		LOANS
Loan Number	Orig Balance	Current Balance	Available	Maturity Date	Origination Officer	Current Office
123	\$ 500,00	0 \$ 500,000	\$0.00	\$46,753.00	JDE	JDE
TOTAL:	\$ 500,00	0				
					D	EPOSITS
Deposit Account	Relationship	Current Balance	Average Balance	Overdrawn 30	Overdrawn 60	Overdrawn 9
22223	Signer	\$300.00	\$1,102.00	0	0	
TOTAL:		\$300	\$1,102.00			
Total	Commitment - B	orrower	Re	lated Debt Commitn	nent	
	Handy Many	8	\$		500,000	
2					CO	LLATERAL
					00	
Loan Number Collateral Descripti		on	Source of Value	Date of Evaluation	Value (\$)	
123		FF&E and Invoice	es	Bank	1/1/2023	\$ 620,0
			1	2003		EXCEPTION
Exception Type Severity		1/1/2023	Dn	Expired On	Approved by here	
LTV Low		17172023		1/1/2023	Approved by board	

Annual Loan Revi

LOS: You Really Need a Process

Areas of a Loan Origination Process:

- •CRM/Leads
- •Document Aggregation from Customer
- •Pipeline and Reporting
- •Financial Analysis
- •Credit Memorandum and Approval Workflow
- •Document Prep
- •Pre-close Review
- •Closing
- •Boarding Loan
- •Post Closing/Board Review (Quality Check)

Lead Wor	k in Progress APC	Stagnant	Closed Finalized
CUSTOMERS	COLLATERAL	WORKFLOW	CUSTOMER CONTAG
Stage: Lead			
Stage: WIP			
Application	Information		
Beneficial O	wnership		
Financial Ar	nalysis		
Credit Memo	o Information		

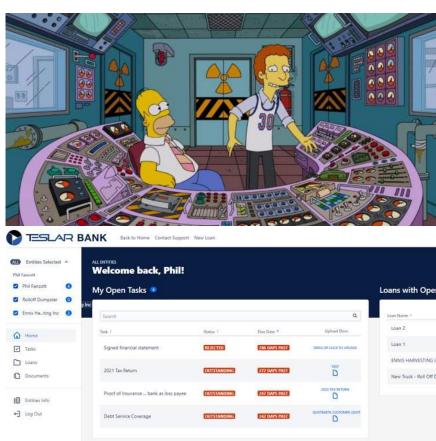
Loan Origination Process

Steps of Improvement

•Document the process (0 to 10 systems,

whatever it takes)

- •Focus on customer-impacted areas
- •Document gathering
- •Renewals
- •Speed and communication
- Keep it simple (fancy and complex fails)Integrations



Loan Origination Process

How Does it Help?

•Bring customers into the process

•Happier customers

•Lenders understand process and bought in

•Operations gain efficiency

•Under heavy volume, it still works



Future Efficiency Hurdles

Look at 1071 impact, AI/Machine Learning and Open Banking

What is 1071?

Gathering of the following Data Points, to determine if lenders are lending fairly to Small Businesses (businesses with less than 5 Million in Gross revenue)

- Unique identifier 1.
- 2. Application date
- 3. Application method
- Application recipient 4.
- 5. Credit type
- Credit purpose 6.
- 7. Amount applied for
- Amount approved or originated 8.
- Action taken 9
- 10. Action taken date
- Denial reasons 11
- 12. Pricing information

- 13. Census tract (principal place of business)
- 14. Gross annual revenue (GAR)
- 15. North American Industry Classification
- System (NAICS) code
- 16. Number of workers
- 17. Time in business (TIB)
- 18. Minority-owned business status
- 19. Women-owned business status
- 20. Number of principal owners
- 21. Ethnicity of principal owner(s)
- 22. Race of principal owner(s)
- 23. Sex of principal owner(s)

Customer

Review Post Close/Withdrawn/Etc Determine if Threshold is met Store and Submit **Track all Entries** Submit Basic Documents Ask 1071 Ouestions

1071 – Plan & Get Started

Steps to Take:

- Understand the basics of the rule
- Understand how year 2024, 2025, 2026 or later will impact you
- Note that qualifying items may come from more than one system
- Understand when you qualify
- Create business loan applications
- Talk to your current vendors. Every LOS vendor must have a 1071 solution component, but may not be the final aggregation.
- Update your Loan Origination Process
- Determine how you will aggregate 1071 data from multiple systems and how you will submit

I. Summary of the Final Rule

II. Background

III. Summary of the Rulemaking Process

IV. Legal Authorities

V. Section-by-Section Analysis

VI. Effective Date and Compliance Dates

VII. Grace Period Policy Statement

VIII. Public Disclosure of Data

IX. Dodd-Frank Act Section 1022(b)(2) Analysis

X. Regulatory Flexibility Act Analysis

XI. Paperwork Reduction Act

XII. Congressional Review Act

List of Subjects in 12 CFR Part 1002

Authority and Issuance

PART 1002—EQUAL CREDIT OPPORTUNITY ACT (REGULATION B)

SUBPART A—General

SUBPART B-SMALL BUSINESS LENDING DATA COLLECTION

SUBPART B—SMALL BUSINESS LENDING DATA COLLECTION

> § 1002.101 Authority, purpose, and scope.

§ 1002.102 Definitions.

AI: can it replace...



How can I help you today?

Explain why popcorn pops

to a kid who loves watching it in the microwave

Help me pick

a birthday gift for my mom who likes gardening

 \uparrow

Tell me a fun fact

about the Golden State Warriors

Create a workout plan

for resistance training

Can you replace my ban

Open Banking – Phase 3

What Is It and Should I Panic?

Phases (this is purely Joe's opinion)

Phase 1: Technology vendors and banks working together

• Think APIs and integrations (still a major work in progress)

Phase 2: Banks working with 3rd parties and other banks

• Think Apple Pay, QuickBooks, Zelle, etc.

Phase 3: Giving Customers the ability to take their data anywhere they want

 And give it to anyone they want. But whose data is it: vendor, bank, or customers? PART 1033—PERSONAL FINANCIAL DATA RIGHTS

- > Subpart A—General
- Subpart B—Obligation to Make Covered Data Available
- Subpart C—Data Provider Interfaces; Responding to Requests

§ 1033.301 General requirements.

§ 1033.311 Requirements applicable to developer interface.

§ 1033.321 Interface access.

§ 1033.331 Responding to requests for information.

§ 1033.341 Information about the data provider.

§ 1033.351 Policies and procedures.

 Subpart D—Authorized Third Parties

§ 1033.401 Third party authorization; general.

§ 1033.411 Authorization disclosure.

§ 1033.421 Third party obligations.

§ 1033.431 Use of data aggregator.

§ 1033.441 Policies and procedures for third party record retention.

Open Banking – Phase 3 What Is It and Should I Panic?

What data are we starting with?

• Transactions, account balances, bill information, basic account information, etc.

So, I would need an API for this?

• Yes, you would be required in some way to make it available and at no cost.

QUESTIONS? Let's Turbo Charge Banking!

TO



The Team Here



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Breakout 1: The Pit Stop Approach: Optimizing Efficiency in a Slow Loan Growth Environment

Scan here to fill out the evaluation for this session.



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