BankDirector.

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

Joe Ehrhardt
Teslar Software

#AOBA24

The Pit Stop Approach

Hosted By:

Joe Ehrhardt
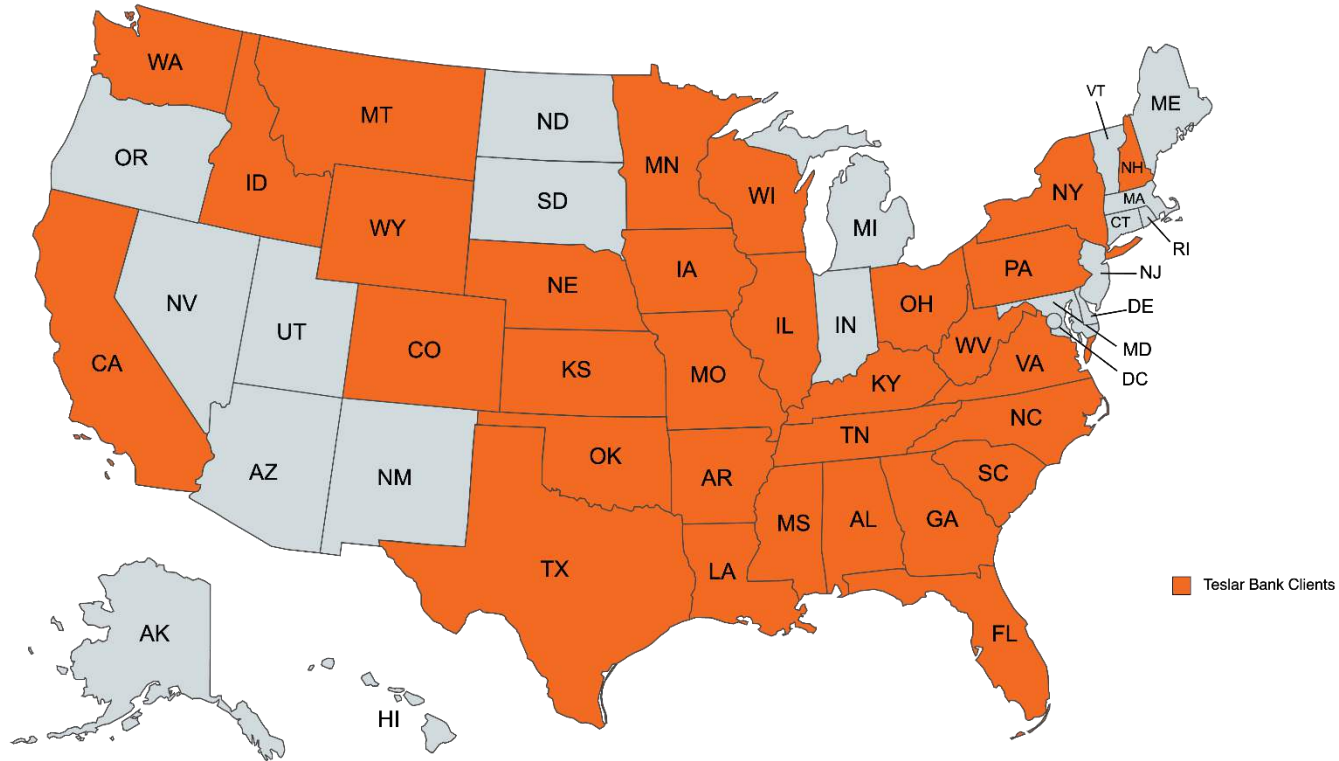CEO and Founder of Teslar Software

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

Teslar Bank Clients

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

Impact

Commercial and Industrial Loans, All Commercial Banks (BUSLOANS)

Observation:	Units:	Frequency:	1Y | 5Y | 10Y | Max
Dec 2023: 2,775.7625	Billions of U.S. Dollars,	Monthly	2015-1-1 to 2023-12-01
(+ more)	Seasonally Adjusted		
Updated: Jan 19, 2024			

FRED — Commercial and Industrial Loans, All Commercial Banks

Shaded areas indicate U.S. recessions.

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

fred.stlouisfed.org

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Pendulum Swings

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

Observation:
Q4 2023: -1.8
(+ more)
Updated: Jan 12, 2024

Units:
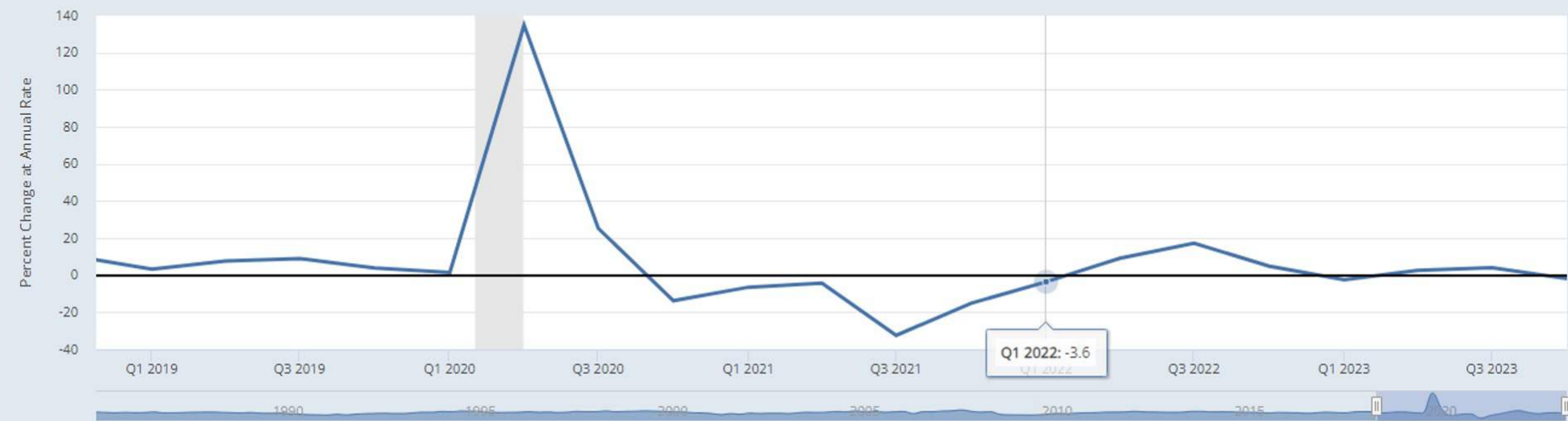Percent Change at Annual Rate, Seasonally Adjusted

Frequency:
Quarterly

1Y | 5Y | 10Y | Max

2018-10-24 to 2023-10-01

FRED — Commercial and Industrial Loans, Small Domestically Chartered Commercial Banks

Q1 2022: -3.6

Shaded areas indicate U.S. recessions.

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

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C&I

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

Observation:	Units:	Frequency:	1Y | 5Y | 10Y | Max
Dec 2023: **721.1436**	Billions of U.S. Dollars,	Monthly	2015-1-1 to 2023-12-01
(+ more)	Seasonally Adjusted		
Updated: Jan 19, 2024			

FRED — Commercial and Industrial Loans, Small Domestically Chartered Commercial Banks

Shaded areas indicate U.S. recessions.

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

fred.stlouisfed.org

CRE

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

Observation:
2024-01-10: **1,981.2570**
(+ more)
Updated: Jan 19, 2024

Units:
Billions of U.S. Dollars,
Seasonally Adjusted

Frequency:
Weekly,
Ending Wednesday

1Y | 5Y | 10Y | Max

2015-1-1 to 2024-01-10

FRED — Real Estate Loans: Commercial Real Estate Loans, Small Domestically Chartered Commercial Banks

Shaded areas indicate U.S. recessions.

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

fred.stlouisfed.org

CRE Change

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

Observation:
Q4 2023: 4.0
(+ more)
Updated: Jan 12, 2024

Units:
Percent Change at Annual Rate,
Seasonally Adjusted

Frequency:
Quarterly

1Y | 5Y | 10Y | Max

2015-1-1| to 2023-10-01

FRED — Real Estate Loans: Commercial Real Estate Loans, Small Domestically Chartered Commercial Banks

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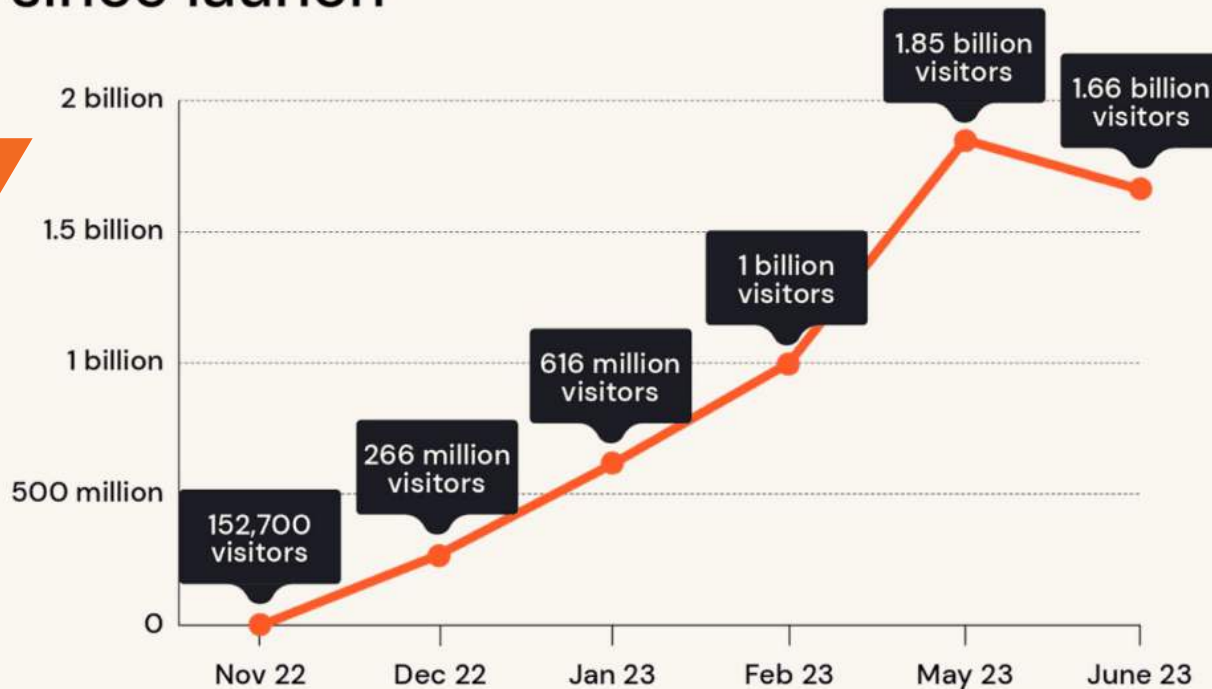Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

AI, AI, AI.
You'll hear about it at least 100 times at AOBA

CHATGPT STATISTICS

Change in ChatGPT website visitors since launch

- 2 billion
- 1.5 billion
- 1 billion
- 500 million
- 0

Nov 22 — 152,700 visitors
Dec 22 — 266 million visitors
Jan 23 — 616 million visitors
Feb 23 — 1 billion visitors
May 23 — 1.85 billion visitors
June 23 — 1.66 billion visitors

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

tooltester

Stop to Go Faster

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

Racing

We all get this.

Cycling
Solid base to go fast.

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

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

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

Type	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

Type	Category	Severity
Final Title Policy	Credit	Exception
Cert. of Good Standing	Credit	Exception
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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

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

Annual Loan Review

Borrower / Joint Borrower:	Nature of Business:	Review Date:
Handy Many	Home Inspection	Next Review Date:
Guarantors:	Participants: None	Customer Since:
	Participated Amount:	

LOANS

Loan Number	Orig Balance	Current Balance	Available	Maturity Date	Origination Officer	Current Officer
123	$ 500,000	$ 500,000	$0.00	$46,753.00	JDE	JDE
TOTAL:	$ 500,000					

DEPOSITS

Deposit Account	Relationship	Current Balance	Average Balance	Overdrawn 30	Overdrawn 60	Overdrawn 90
22223	Signer	$300.00	$1,102.00	0	0	
TOTAL:		$300	$1,102.00			

Total Commitment - Borrower	Related Debt Commitment	
Handy Many	$	500,000

COLLATERAL

Loan Number	Collateral Description	Source of Value	Date of Evaluation	Value ($)
123	FF&E and Invoices	Bank	1/1/2023	$ 620,000

POLICY EXCEPTIONS

Exception Type	Severity	On	Expired On	
LTV	Low	1/1/2023	1/1/2023	Approved by board,

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

Annual Loan Revie[w]

Borrower / Joint Borrower: Handy Many
Guarantors:

Nature of Business: Home Inspection
Participants: None
Participated Amount:

Review Date:
Next Review Dat[e]
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LOANS

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What was the origioanl puporse:

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)
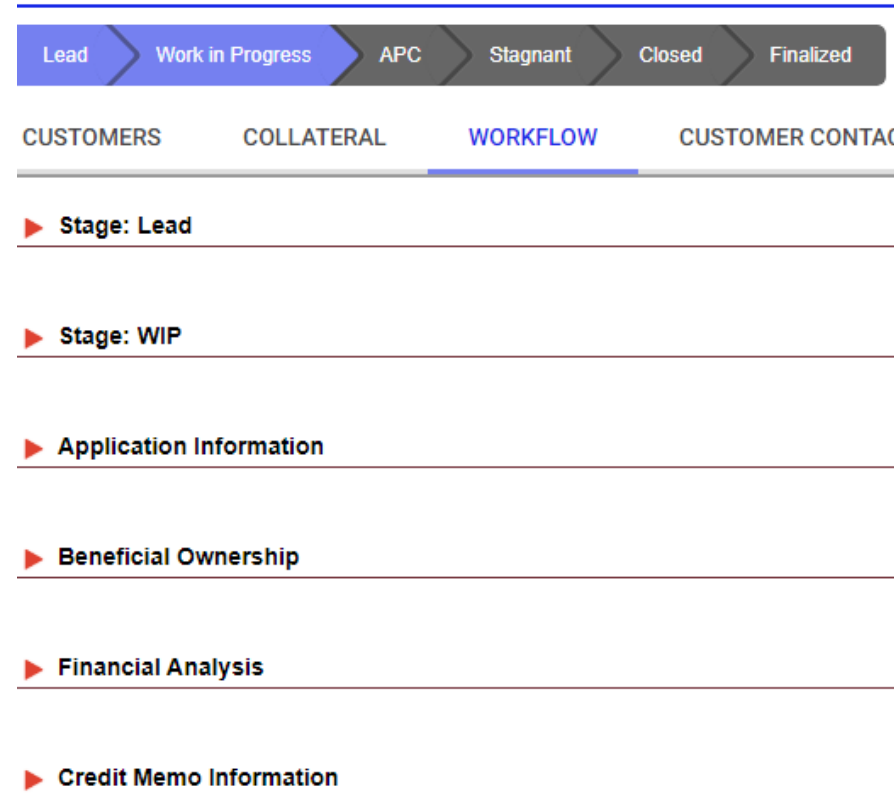
Loan Origination Process

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)

1. Unique identifier
2. Application date
3. Application method
4. Application recipient
5. Credit type
6. Credit purpose
7. Amount applied for
8. Amount approved or originated
9. Action taken
10. Action taken date
11. Denial reasons
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 → Submit Basic Documents → Ask 1071 Questions → Track all Entries → Review Post Close/Withdrawn/Etc → Determine if Threshold is met → Store and Submit

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

https://files.consumerfinance.gov/f/documents/cfpb_1071-final-rule.pdf (It's 888 pages long)

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

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?

Links: Consumer Finance Document | CFPB

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!

The Team Here

Joe Ehrhardt

David Hamrick

Ryan Esquell

Gerald Webber

Stay in Touch

📞

Direct: 479-347-4001

Sales: 479-347-4040

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joe@teslarsoftware.com

sales@teslarsoftware.com

Joe Ehrhardt

CEO and Founder

Teslar Software