_Work Like Tomorrow._™

# Streamlining the Loan Origination Process

Drive Business Resiliency and Efficiency with
Secure, Automated Workflows

**KOFAX**

# Contents

# Introduction

As the primary source of interest revenue, loans are banks' most important asset category. Yet, the loan origination market is growing more competitive. Financial technology (fintech) players are reimagining the customer experience and raising consumer expectations for a fast and simple application process.

To compete more effectively, traditional banks need more efficient processes and the ability to scale. Too many manual steps and a too long loan process are among the leading reasons that customers give up on a bank and take their business elsewhere. Transforming loan origination to eliminate the delays, errors, and costs of manual processes will be key to any bank's ability to compete for, win, satisfy and retain customers. However, banks face significant hurdles in revamping these processes. Legacy systems aren't easily scalable. CIOs face difficult decisions about how to allocate limited budgets to create more efficient processes — while also minimizing disruption to the business.

In addition, the multifunction devices (MFDs), mobile phones and tablets that are important tools in streamlining loan origination are points of vulnerability that could drive banks out of compliance with regulatory requirements. Customers' non-public information (NPI) or personally identifiable information (PII) is at risk of exposure any time there is a manual step in the process. The loss of visibility at these junctures increases the risk for errors and non-compliance.

To strengthen their competitive position, banks need to streamline loan origination and replace manual processes with automated document capture and process orchestration. In doing so, they'll create greater visibility into the process, speed processing time, improve regulatory compliance, reduce errors, and increase customer satisfaction.

# With Competition on the Rise, How Can Banks Move Faster?

Banks do not have the loan business all to themselves. Stiff competition is coming from financial technology (fintech) start-ups and other non-bank companies. These newcomers are succeeding in part by offering a more customer-focused and streamlined loan origination process that banks have been generally slow to adopt. And what banks are slow to do, hurts them.

The customer is already online and on mobile. According to Business Insider Intelligence,[1] 89 percent of banking customers use mobile banking. It's pervasive among all generations. A notable 97 percent of millennials use it, as do 79 percent of baby boomers. Digital-first banks (or "neobanks") such as Chime and MoneyLion are innovating banking by making it easier, faster and cheaper, Forbes reports.[2] Likewise, fintech startups such as Quicken Loans, Avant, Best Egg, and others are disrupting the loan business with easy, online and mobile application processes that get answers to the consumer quickly.

According to research by McKinsey & Company,[3] the average "time to decision" at many traditional banks is between three to five weeks for small business and corporate lending. The average "time to cash" is almost three months. But leading banks and many fintechs get decisions to customers in minutes and get cash to them up to 80 percent sooner, McKinsey says. Because they spend 30 to 50 percent less time on decision making, they also realize lower costs and better risk outcomes.

Banks can improve decision-making and the customer experience by establishing best practices for loan origination and replacing manual processes with secure and automated workflows, such as:

- Capture documents at the point of service.
- Connect originator activity with centralized operations.
- Minimize the chance of human error.
- Reduce the risk of compliance violations.
- Promote customer cross-selling and retention.
- Lower operating costs significantly.
- Establish a simple, streamlined process in action.

The way to accomplish this is by digitizing routine documents and using artificial intelligence — or intelligent automation — to make better decisions faster.

# The Digital Challenge

Everyone talks "digital" but when you dig a little deeper, the reality is often a bit messy and fragmented. Banks are successful when digital is part of their overall business strategy, not just a one-off project. Yet, banking executives too often view automation as the purview of the CIO or CTO as opposed to a fundamental part of their strategy, involving all the company's leaders.

Thus, while many banks have removed some manual processing – like scanning a document into the system – automation tends to be piecemeal. Banks will prioritize front-end touchpoints like mobile, online and cross-channel communications yet skip automating the backend. In a Forbes Global Insight[4] survey of senior executives, 60% said they wanted their processes to be automated or mostly automated, but only 38% said they had achieved that benchmark. As a result, manual indexing, keying of data and "stare and compare" continue to impact every point of the loan process, from origination and underwriting through to closing and ongoing servicing.

The number of application documents only compounds the problem. In the U.S., where it can take an average of 42 days to close,[5] loan files contain as many as 700 pages,[6] leaving ample room for error. The more times the same document must be handled or the same information manually keyed, the more opportunities there are for mistakes and delay, and the more the process costs. Despite the slick-looking mobile app, the result is a slow, frustrating customer experience.

Transforming the loan origination process to eliminate the delays, errors, and costs of manual processes will be key to a bank's ability to compete for, win, satisfy and retain customers.

# The Compliance and Security Challenge

Strengthening and simplifying regulatory compliance is another reason for banks to speed up loan origination. In 2018, many banks benefited from a rollback on certain provisions of the Dodd-Frank bill.[7] Restrictions were eased on all but the largest banks, including relaxing of loan reporting requirements for some lenders.

This is good news, but complexity persists. New compliance hurdles remain on the horizon. The 2018 implementation of the European Union's General Data Protection

Regulation is driving interest for a similar policy in some U.S. states, including California, New York and Vermont. As Deloitte reports, protecting a client's digital identity will be the "new frontier for banking."[8] As of 2020, there is no national privacy regulation in the U.S., but states seem likely to enact their own. When they do, the complexity of complying with each state's requirements will rise.

Automating the steps in the loan origination process will help banks keep pace with such changes. With intelligent automation, they'll gain access to more reliable metrics and auditable processes, ensuring compliance with regulations and that customer information remains secure.

If preparing for rules that don't yet exist weren't challenging enough, the problem for bank CIOs and compliance officers is that security vulnerabilities and potential compliance breaches exist at every information touch point. For instance, unsecured digital multifunction devices (MFDs) can be used to make unauthorized copies or scans. In the absence of automated encryption and file destination control, customer information can be emailed accidentally or intentionally from these devices to unauthorized addresses. Plus, MFDs can store images and retain email addresses, network and user IDs, and even passwords in memory—all of which can be accessed by someone with the right skills.

Paper is inherently insecure, but merely replacing paper forms with digital versions does not in itself eliminate this risk. Digitization is a step in the right direction, but it's still far from ensure a secure, compliant automated loan origination process. Malicious or criminal attack continues to be the leading source of enterprise data breaches worldwide in 2019 (at 51%), but the Ponemon Institute's Cost of Data Breach Study[9] found one in four breaches was the result of human error.

> Banks that do not automate their loan processes, and improve the customer experience by doing so, are essentially ceding business to competitors that will.

Unsecured mobile devices, including laptops, tablets, smartphones and USB drives containing customers' personal information, are especially vulnerable to attack.

This security risk presents a challenge for banks, since mobile devices can play an important role in streamlining processes. In loan origination, tablets and laptops can free bankers from the branch, enabling them to go to the customer and begin the process where and when it's convenient for them. Voice recognition for speaking information into a mobile loan origination app can be faster and more accurate than manual keying on a small device's touch screen. The cameras in smart phones and tablets can be used in place of scanners to capture documents and make them part of the loan workflow — provided that image capture happens directly within a secure mobile loan origination app and no image remains on the device.

The COVID-19 pandemic adds yet another layer of risk. With more employees now working from home and on mobile, the potential for security breaches has jumped. Even prior to the pandemic, financial institutions still had far to go to bring security and compliance to their mobile devices. Pre-COVID-19, locking down endpoints such as laptops and mobile devices was a secondary concern, reports the ABA Banking Journal.[10] As banks shift to remote working, possibly for the long-term, mobile security must be a priority.

To become more competitive, compliant and efficient in their loan origination, banks need to:

- Minimize manual document processing/handling.
- Automate manual steps and workflows.
- Simplify the sharing of information between business units.

But only a system combining user authentication and authorization, encryption, destination and output controls, and audit trails can protect data at rest, data in motion and data in use to assure the integrity of customer information on any device information is accessed or transmitted.

# Transforming Loan Origination to Make Banks More Efficient and Competitive

Banks must transform their loan origination process into a faster, more compliant and better customer experience. Kofax solutions help banks improve process efficiency by providing scalability and more accurate insights throughout the customer life cycle. At the same time, Kofax enables banks to add a layer of security and control to customer information and the output of required documents, increasing visibility into the loan process for customers and employees alike.

A typical loan application scenario illustrates the speed, efficiency, security and economy of automating the loan origination process.

## Digitizing documents at the point of origin

A customer seeking a loan brings to the bank branch the supporting materials needed for her application (e.g., tax returns, pay stubs, employment verification, photo ID, etc.). The branch loan officer initiates the bank's loan process, enters information into his computer and collects the customer's documents as part of assembling the loan package.

At an institution lacking full end-to-end automation capabilities, the loan officer would scan all related documents. However, this process is limited as it captures only an image. The customer's information still needs to be manually entered into the Loan Origination System. But the banker gains more advanced options with automation. Using the branch's multifunction device (MFD) or mobile device, they can capture and scan all of the customer's documents and information, transmitting it securely and instantly into the bank's loan system.

To unlock the MFD, the loan officer authenticates himself by swiping a proximity ID card or entering his username and password or PIN number on the machine's front panel or on a mobile device. With the banker securely logged in, the MFD touch screen displays buttons for the functions or pre-defined workflows he's been authorized to use. In this case, one of these workflows will scan the documents and transmit them to the bank's service center, eliminating the logistics, time and costs of manual handling and physical delivery. The banker is notified immediately of the submission's success and its contents.

## Automating error-prone manual tasks

Everything about the Kofax automation platform is designed to simplify use, minimize user tasks and reduce risk.

Automated data extraction, document type identification (with or without barcode), document correction and cleanup, blank page removal and double-sided scanning speed the handling and processing of loan documents, increase accuracy of the package and eliminate the delay and errors of manual rekeying. Bi-directional database lookup can auto-fill fields for faster completion of applications from prior or current customers.

Scanning functions are fully automated, transforming data into industry-specific formats without the user needing to know or specify any input or output settings. Also automated are routine, error-prone tasks such as barcode-based naming, batching, splitting, filing and indexing of scanned documents. Validation and filtering at the point of origin ensure accurate document handling and routing, including the immediate routing of documents requiring wet signatures. Again, within seconds the banker can receive an automated notification confirming and summarizing the successful scan. He can access this information, and future updates, at any time through a History/Status function on the MFD, his desktop PC or mobile device.

Entire workflows can be pre-defined and saved to a single button, but when additional user action is required, visual prompts make it clear and limit human error. Meanwhile, seamless and secure integration makes appropriate information available to the institution's core banking, enterprise content management, business analytics or marketing systems.

## Accepting documents from any input source

Suppose the customer's tax return or pay stub was missing from the scanned documents because the customer left the document at home. This doesn't mean there has to be a delay. The system will notify the loan officer of the exception immediately, providing a barcoded cover sheet to assure the document gets correctly appended to the customer's application when it becomes available.

The customer can scan the needed document and fax it with the barcoded cover sheet. Or she can send the document by email, with or without the barcode identifier, either to a one-time address linked specifically to the exception or to the banker's business email address. Kofax captures documents from any input source, including scanner, email, fax, Web forms, and mobile devices. In whatever form the information exists, it can become part of the customer's loan package.

The banker, in turn, using his smartphone can receive and review the emailed document and, using the same solution interface as on the MFD, can add the document to the loan package. Using his same ID, he can securely access the same predefined workflow buttons, allowing him to add the customer's document, resolve the exception and check the loan's history and status to confirm that the electronic loan package contains all required documents.

## Improve the customer experience

Kofax eliminates the manual processes and human errors that can delay closing and lead to customer dissatisfaction. Auto-filling of loan application fields, automated data capture from scanned images, instant document transfer from branches to central offices and continual visibility into loan status increases accuracy, speeds processing and assures customers their application is on track.

# Simplifying Compliance

While the automated loan origination process eliminates unnecessary production and improves distribution of loan documents, the only way documents containing NPI or PII can be scanned, copied, printed, emailed or faxed within regulatory compliance is under a system incorporating technological security and authentication. Kofax meets all of the requirements for security, integrity and confidentiality of customers' information:

**Authorization:** Password- or smartcard-based authentication assures that only authorized staff can access specific devices, network applications and resources. Network authentication is seamlessly integrated with document workflow, ensuring optimal security.

**Authentication:** User credentials must be verified at the device, by PIN/PIC code, proximity (ID), or by swiping a smartcard to access documents containing customer information. Once users are authenticated, the solution applies rules and permissions to control what they can do on an MFD. Controls include redacting and even prohibiting documents that contain NPI or PII from being printed, faxed or emailed.

**Encryption:** Communications between smart MFDs and mobile devices, the server and allowed destinations are encrypted to ensure documents are only visible to users with proper authorization.

**File destination control:** Simultaneous monitoring and auditing of information in documents ensures proper management before it ever gets to its intended destination. A complete audit trail captures all MFD and document activity.

**Content filtering:** Automatic enforcement of security policies proactively prevents NPI or PII from leaving the bank by filtering outbound communications and intercepting documents headed to unauthorized destinations.

**Secure output:** When documents need to be printed, Kofax prevents exposure of customer information by holding print jobs in a secure print queue and outputting them only when the bank employee signs in at the printer and selects the specific documents to output.

Kofax extends this same level of security to mobile devices, allowing bankers to create, receive, access, route and output documents from smartphones or tablets. Secure completion of forms on mobile devices, including electronic and digital signatures, helps to eliminate the need for paper. Since data is never stored on the device, including document images captured in the solution, there is little risk of customers' information being compromised if a device is lost or stolen.

## Delivering Measurable Results at Financial Services Providers

The operating improvements that can be achieved with Kofax are not merely possible but are already being realized by banks and other financial services firms around the world every day. A financial services association serving dozens of counties in the Midwest chose Kofax to replace manual document processing with a one-click automated workflow that enables scanning of every type of loan-related document, including application forms, letters of credit and collateral templates, directly into the organization's existing SharePoint document management system and MYSITE. More than 550 employees in branch locations can quickly access and retrieve documents that are scanned at headquarters. Plus, documents can be converted into multiple formats, including searchable PDFs, Word, and Excel. Intelligent document routing speeds distribution and archiving by summarizing an entire document workflow into a barcode on a single printed or electronic cover sheet.

After physical filing cabinets failed to keep up with the massive volume of paper received from 460 member banks, Kofax provided a U.S. bank with a streamlined, automated solution that processes documents in seconds and digitizes them for rapid storage and retrieval. The paperwork includes forms, applications, support documentation, legal documents, and authorizations —all of which must be organized, indexed, processed, distributed and stored in compliance with the strict requirements of the Federal Housing Finance Agency. Documents must also be easily retrievable, so the information automatically captured from each document allows for sorting, querying and searching from users' desktop PCs and other devices. The bank is saving work-hours and improving performance in areas such as security, disaster recovery, document retention and accessibility. Kofax automation solutions integrated with the bank's existing infrastructure assets provide a robust document scanning solution. A flexible module-based licensing model allows the bank to grow and extend its investment, one project at a time, adding new technology as required.

# Conclusion

Banks are facing a perfect storm of challenges, from changing customer expectations and the disruption of the industry by fintech competitors to the impact of the COVID-19 pandemic. More than ever, they need to automate their costly, inefficient and error-prone loan origination processes or risk losing business to digitally transformed institutions or streamlined non-bank competitors. Intelligent automation capabilities such as cognitive capture and process orchestration can help banks close the gaps in their loan origination process, reduce errors and improve efficiency. Achieving the right balance between human workers and digital colleagues will help banks be more resilient in uncertain times and consistently exceed customer expectations. With Kofax, you can begin working like the digitally enabled bank of tomorrow, today.

# About Kofax

Kofax software enables organizations to Work Like Tomorrow—today. Our Intelligent Automation software platform helps organizations transform information-intensive business processes, reduce manual work and errors, minimize costs, and improve customer engagement. We combine RPA, cognitive capture, process orchestration, mobility and engagement, and analytics to ease implementations and deliver dramatic results that mitigate compliance risk and increase competitiveness, growth and profitability. Kofax provides a rapid return on investment for over 20,000 customers in financial services, insurance, government, healthcare, supply chain, business process outsourcing and other markets. Kofax delivers its software and solutions through its direct sales and services organization and more than 650 indirect channel partners and integrators in more than 60 countries throughout the Americas, EMEA and Asia Pacific.

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