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## Customers Should Dictate the Loan Decision Venue



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Thanks to the recent introduction of new small-business credit scoring models from Fair, Isaac & Co., banks can now make more credit decisions primarily on the basis of the customer's credit score than ever before.

The potential for improving efficiency by using these models makes it very tempting for banks to reduce or eliminate credit decision making authority in the field, and to centralize the processing and underwriting of small-business loans.

But the issue that should be considered is whether the potential for lower underwriting cost can actually be realized from the bank's loan policies and loan offi-

cer capabilities. More importantly, will central underwriting actually lead to more profitability and customer satisfaction?

Banks that use credit scoring for small-business underwriting believe they cannot totally divorce themselves from judgmental underwriting policies to protect credit quality. While bankers argue that credit scoring helps them with the credit question by accurately predicting the rate of default, it does not address other credit issues: capacity and character. As a result, the credit score is typically coupled with measures of income and cash flow, as evidenced by financial statements and tax returns.

If centralized, the underwriting unit that needs this capacity proof must cut into the efficiency of the process by somehow getting these documents transported from the field to the underwriting center.

In addition, central underwriters are insulated from getting to know the customer. They are forced to rely on the loan officer to properly represent the customer's character. Loan officers wonder why, if this is the case, they should not retain the author-

ity to evaluate the loan request and render a decision on their own or through a local loan committee.

Two other issues often add to the momentum for centralized underwriting. One is the notion that fair-lending rules will someday be applied to small-business loans in substantially the same way they are currently applied to consumer loans. Removing the underwriter from the customer effectively insulates the bank from any potential discrimination action that could be taken by regulators.

A second issue is that some banks want their small-business bankers to be salespeople, not credit officers. They sometimes find, however, that working with small-business borrowers requires a background similar to that of a commercial lender. If this is the case, why should the bank not leverage the lenders' knowledge by granting them at least limited loan authority?

Before yielding to the centralized underwriting temptation for small-business loans, consider the customer's needs and balance them with your underwriting policies and loan officer capabilities. Then establish the venue for loan decisions accordingly. §