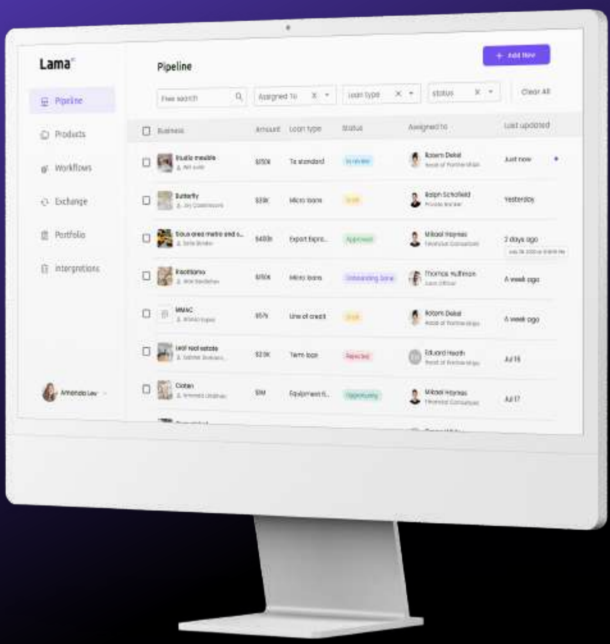
Approving More Loans Without Changing Risk Exposure

How a medium-sized community bank in Texas boosted customer retention, satisfaction, and profitability with a unique loan approval strategy



Introduction

Each lending organization has its own lending expertise, modeling, and risk appetite that translates to its credit box and ability to approve customer loan requests.

A rejected loan is costly for all stakeholders. Banks face the potential loss of a valuable client relationship. The loan applicant faces an uphill battle in searching for an alternative source of capital without a prior relationship.

When it comes to small business lending, this story plays out far too often.

In this case study, we look at how a medium-sized community bank in Texas took a different approach to maximize customer approvals. Its approach led to an increase in customer retention and satisfaction rates, along with higher profitability — **without any changes to its credit risk exposure.**

The situation

A $6 billion community bank with a conservative risk profile faced a dilemma, as clients were increasingly going elsewhere for credit. While the bank had award-winning service across a range of commercial products, its strict risk posture limited the ability to lend to businesses with EBITDA of under $5 million. The risk department was also concerned about its portfolio concentration in hospitality and retail, further limiting lending in those competitive markets.

This conservative approach put the bank at a disadvantage in a highly competitive urban market. Despite its stellar customer service culture, the bank faced a 4x churn rate among customers whose loan applications were turned down.

To address these challenges, the bank partnered with Lama AI to better serve and retain its business customers. The bank is now able to offer vastly expanded credit products and improve customer satisfaction, all while keeping unwanted risk off the balance sheet.

The challenge

Small business lending has three unique characteristics that create a challenging lending process.

First, loan profitability is the biggest challenge in small business lending. Many strong small business loan applications are rejected due to loan size — unrelated to credit risk! The cost of underwriting a $5 million loan is similar to that of a $250,000 loan, leading banks to struggle with unit economics for small ticket applications. In this case, the bank was not able to consider applications for under $500,000.

A review of the bank's applications over the past 12 months showed that 38% of applications were for under $500,000. When looking past loan size, 78% of the applications were from businesses with strong financials, showing a significant underserved opportunity.

Second, each financial institution has a unique credit appetite. This causes an inherent challenge in providing credit to a valued customer that does not fit their primary bank's lending appetite. Misalignment can be due to a variety of underwriting variables, including industry, loan size, years in business, geography, and dozens of others.

Third, there are various small business credit products, and usually, one bank doesn't offer all of them. Each loan type requires specific expertise, processes, and tech investment.

This bank was able to offer CRE and working capital loans. But when reviewing the bank's applications over the past 12 months, 17% of the applications didn't fit any of the bank's existing products.

These three challenges required the bank to find a more versatile, fast, and effective way to retain customers without adding unwanted risk into their balance sheet.

The Solution

Lama AI provided the bank with access to a network of lenders, consisting of community banks, regional banks, and CDFIs, through a centralized platform. The platform has pre-agreed terms and overall visibility into the process and outcomes. The bank did not have to invest IT resources to connect to various partners nor create the right agreements, compliance, or rails.

By connecting the bank's small business rejected applications stream into the Lama AI exchange, the bank was able to expand the range of credit products and surpass its own limitations.

The new approach allowed the bank's business customers to spend less time applying and reapplying with different lenders and enabled them to get a bank-rated quote faster.

Results

Lama AI helped the bank to seamlessly approve more customer loan applications without taking additional credit risk. The bank is now able to better serve its customers and keep them loyal and satisfied.

The bank has dramatically increased its ability to offer credit products, with a commensurate increase in customer satisfaction. Having started out with small ticket loans, the bank is now implementing an additional credit product that it previously did not support (ABL).

An internal survey conducted one quarter following the integration reported an 86% customer satisfaction rate with the range of business credit products and services offered. Additionally, the bank has been able to approve loans for 72.9% of their small ticket applications.

Following one quarter of network participation, the bank was able to approve loans for new products of $115 million in value and improve expected customer retention by 82%.

Approval rate

72.9%

The bank was able to approve 72.9% of their small-ticket applications

Retention

+82%

The bank improved expected customer retention by 82%

Customer Satisfaction

92%

were satisfied with the range of credit products

$115M

By using Lama AI, the bank could approve $115M of credit, while keeping unwanted risk off the balance sheet

For more information, contact us hello@lama.ai