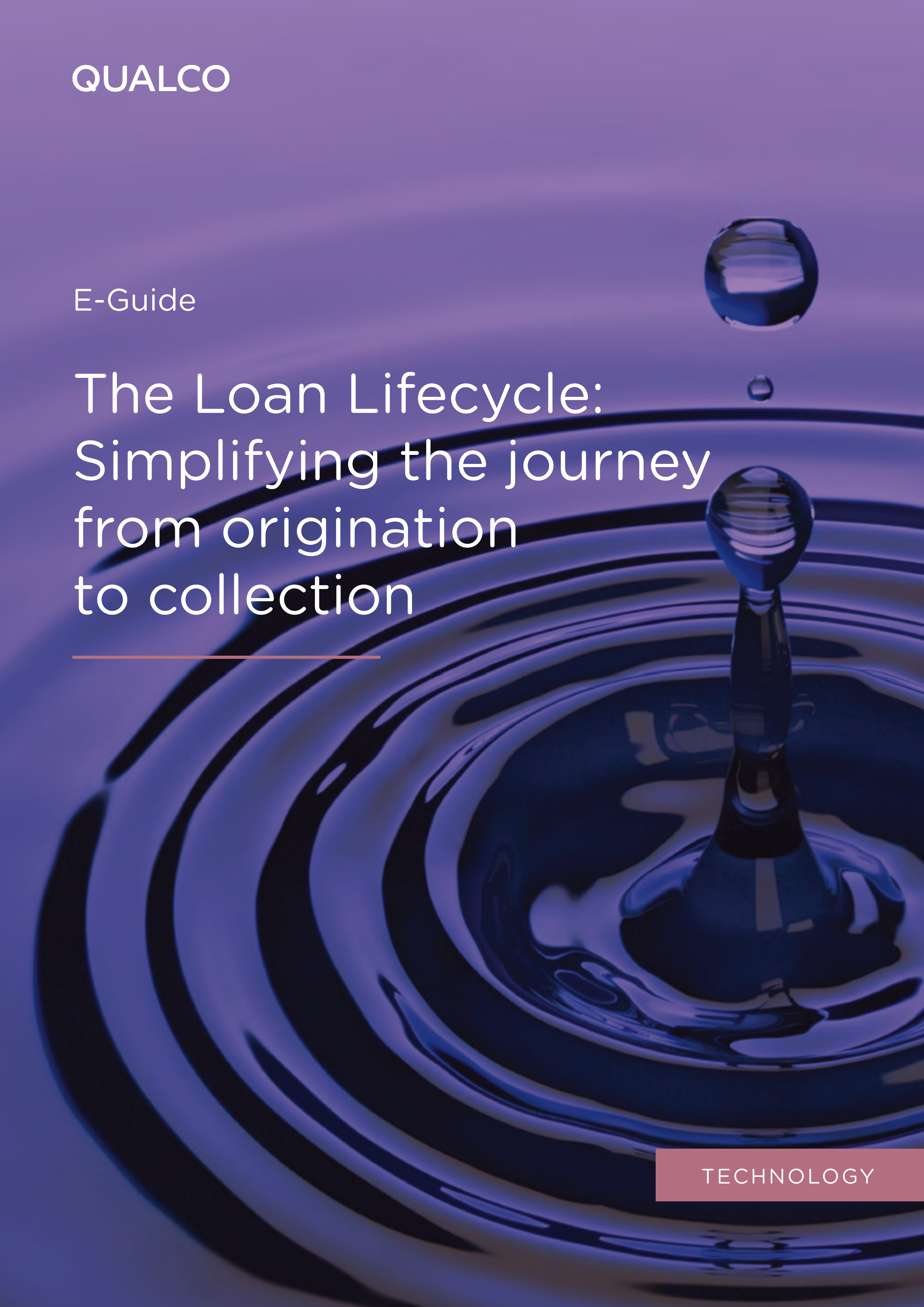
QUALCO

E-Guide

The Loan Lifecycle: Simplifying the journey from origination to collection



TECHNOLOGY

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INTRODUCTION

"The complex life of a loan in today's economic climate requires a new approach to loan management."

Nothing can be taken for granted. While originating creditors lend in good faith, trusting that the customer will be able to fulfil their obligations, a proportion of those loans will ultimately need to be restructured. This has been exacerbated by the financial crisis, resulting in a large volume of non-performing loans across Europe and beyond.

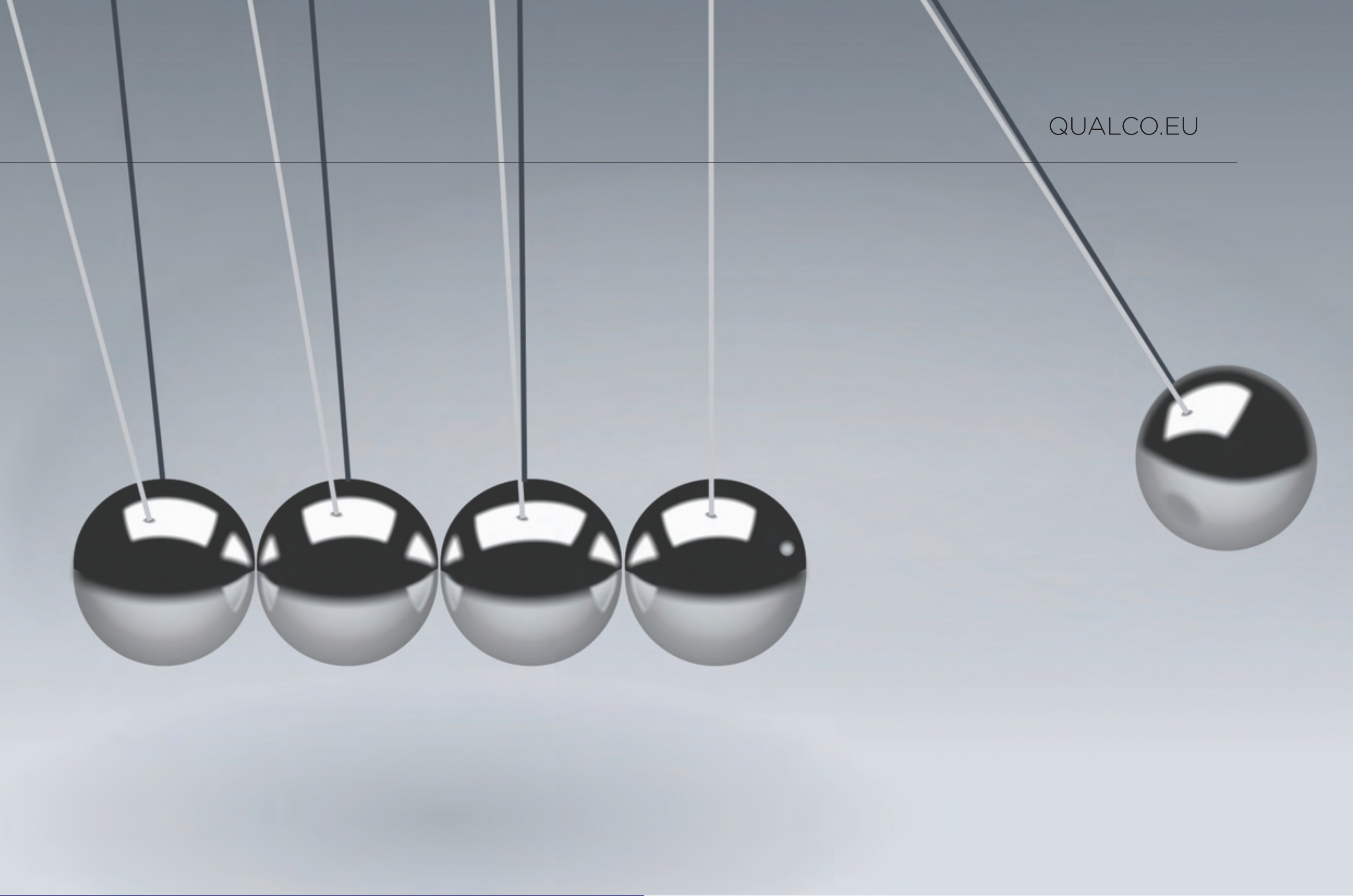
In the past decade the world has been through huge financial upheaval: from the sub-prime crisis to real estate bubbles in countries such as Ireland and Greece. These crises have resulted in increased scrutiny and regulation by a range of country- specific and European authorities, such as European Central Bank guidance on non-performing loans.

On the human scale, consumer indebtedness is still at worrying levels in many countries. Customers have found themselves shut out of cheaper lending and unable to maintain payments on their existing commitments. Some have been unable to find re-mortgage deals because they don't have the equity needed for today's products. Others have lost their jobs and found the value of their property has reduced or cannot be realised in the current environment.

Government benefits have been cut or tightened, meaning many are struggling to meet 'priority debts' such as rent, food and council tax, nevermind discretionary spending. The end of the era of easy credit has exposed the sheer numbers in difficulty.

Meanwhile, corporations have also struggled, with many unable to repay loans and facing the threat of liquidation. They too need to find viable solutions that will allow breathing space and enable them to grow and thrive in the future.

A proportion of customers and loans will inevitably journey through the collections process when their individual circumstances interact with wider economic conditions, affecting their ability to pay. Banks, financial institutions and their servicers must find a way to collect the most they can.



With a wide range of product types, from secured and unsecured consumer loans to small business, real estate, corporate lending and more, plus different systems for origination, loan maintenance and collections, many banks and servicers are relying on adaptations to in-house systems that no longer meet the needs of today's marketplace. Legacy systems such as these can be difficult, time consuming and expensive to update.

Instead, what is needed is technology that will effortlessly transport the loan from beginning to end. That technology must allow for increasingly sophisticated restructuring solutions that creditors and third parties agree with borrowers.

Such technology also needs to be deployed rapidly and in an adaptable way: some creditors or servicers may wish to transfer all loans, others prefer to trial a new loan type or particular product area.

In the past, loan management technology has often focused either on origination, maintenance or collections. Taking insights and experience from all stages of the loan lifecycle to design a system that can handle all eventualities, reconciling customer data, financial details and new arrangements, is an important step forward.

Users can then achieve the best outcome for the customer and the greatest return on non-performing loans in a simple, trackable and compliant way.

THE LOAN LIFECYCLE:
Seamless steps from origination and maintenance to the collections process

Traditionally, some creditors have used different systems for origination, maintenance, restructuring & collections as well as for different loan types – such as consumer or corporate portfolios. However, effective technology enriches loan functionality for performing and non-performing loans, offering a range of options in how all loans are managed.

Creditors across Europe are facing ongoing issues over volumes of non-performing loans (NPLs).

They must find viable solutions for customers to enable them to repay their debts, while also generating new lending.

These repayment solutions are many in number and often require the creation of composite products with different characteristics. Most of the time it is not a matter of setting a simple settlement scheme, but of creating a real, viable and permanent restructuring solution tailored to the customer's needs.

There are many challenges in handling non-performing accounts. These accounts require frequent reviews of contract terms and conditions and need to be carved out from the performing portfolio. That results in painful migration procedures and extended in-house investment. There may also be weak functionality in restructuring-specific products.

For example, when a bank, debt purchaser or third-party servicer finds a repayment solution to suit a customer, they may need to close the original account and create one or more new accounts to deliver that arrangement. This is far from ideal – adding complexity and making it harder to track the loan. Organisations may also struggle to design and implement changes to their large and complex systems.

In addition, servicers may rely on professional support from the creditor for the acquired portfolio and the use of their systems. They find themselves dependent on the bank's timetable and priorities, which can result in delays in collections.

Instead, they can now use technology that is flexible enough to stand alone or integrate with those existing and legacy systems. The solution is built with collections expertise and in-depth knowledge of restructuring, making a transition from loan maintenance to collections simple.

This technology offers prebuilt solutions for every requirement, along with efficient functionality and the ability to launch new products within that same solution. Creditors or servicers can effect fast and smooth migration, enabling them to manage multiple portfolios within the same environment.

Instead of multiple new accounts, lenders and servicers can operate a loan account with three 'shadow' segments, allowing for conditional debt forgiveness, standard payments and less frequent top ups by the customer.

The system maintains customer data, including demographic, financial, and contact information to support segmentation and profiling. It also maintains contract terms and conditions along with details of relationships and involved parties.

Customers can be provided with regular statements – either monthly or bi-annually – generated by the system.

This approach means one system can handle the loan throughout its lifecycle, freeing organisations to provide a better customer experience.

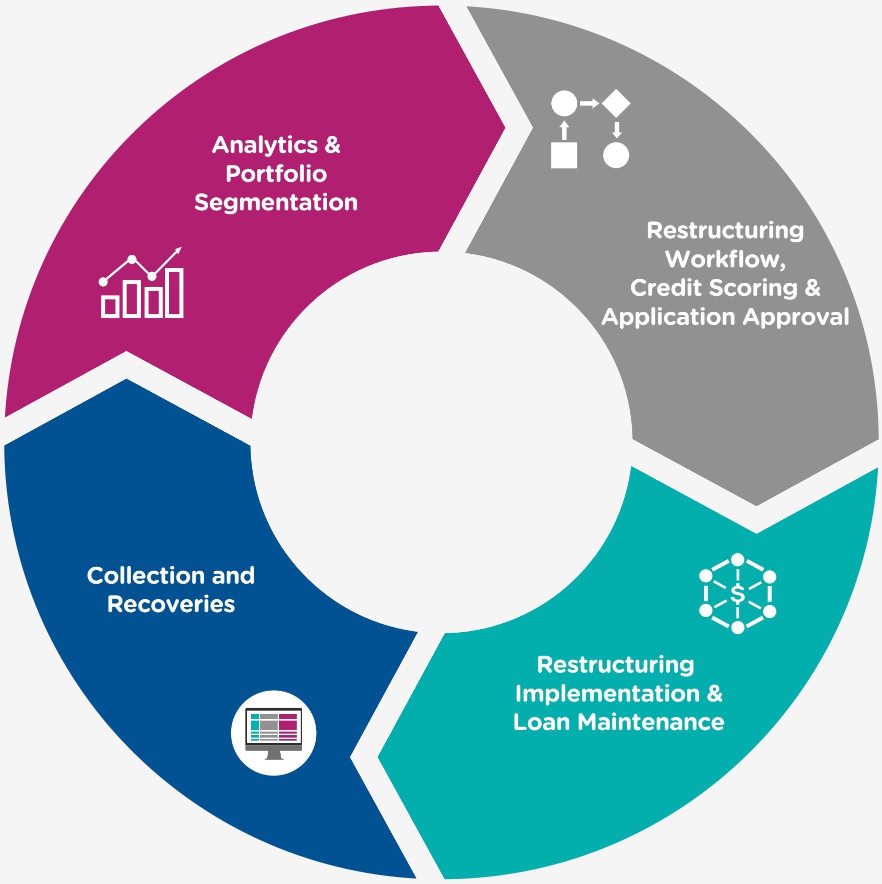
RESTRUCTURING

“The ability to create **tailored repayment plans** using multiple loan repayment options offers huge flexibility to creditors and servicers alike.”

In the wake of the financial crisis, restructuring all types of loans has become a key part of banking activity across Europe.

Unfortunately, this is where many institutions and their servicing partners are let down by legacy systems. Core-banking products may be limited in scope and tricky to update in a cost-effective and timely manner.

THE RESTRUCTURING PROCESS



In fact, technology is capable of tackling the challenges of restructuring and collecting, without migrating to different systems and setting up new accounts. A dedicated system for loans means users are not subject to the delays and limits of technology that is designed to offer other functionality or services.

Restructuring requires a system that offers an end to end solution, supporting the entire workflow. This should take the organisation through the key steps of analysing and segmenting a portfolio in the first instance.

The system needs to handle credit scoring, document collection, evaluation and the creation of a tailor-made solution for each customer.

Once the product set-up is enacted and the repayment plan approved, the system moves to implementing that agreement. It is vital that the technology is adept at integrating with legacy systems and ERPs if organisations are to make practical use of these advances.

Subsequently the system should continue to monitor and report on a plan's success. If the plan fails, the system should flag this and propose a new solution for the customer.

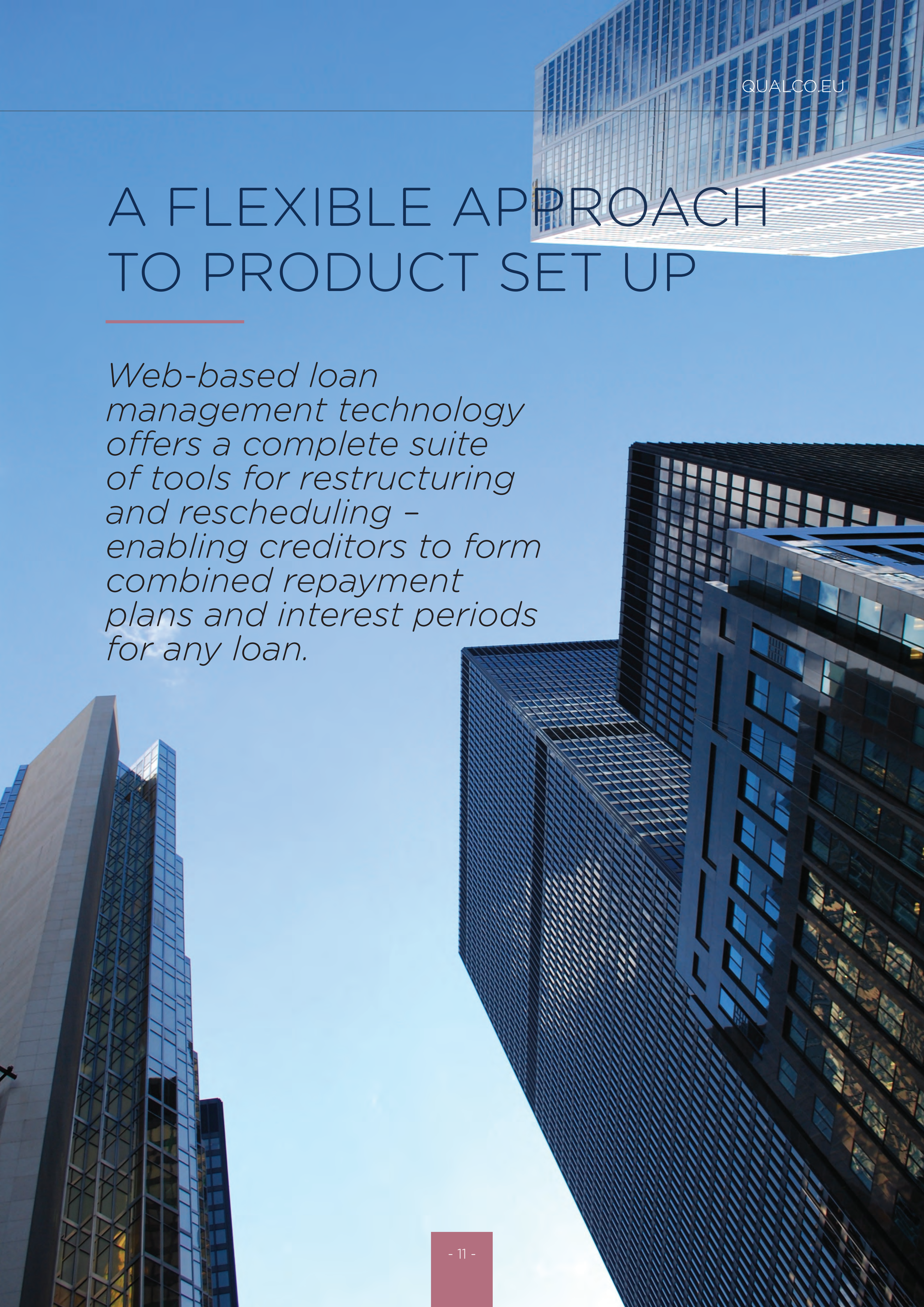
It is an ongoing process of understanding the customer's capability to pay and, within existing legislative and regulatory boundaries, offering solutions that engage his willingness to do so.

This is most effective when creditors and servicers can build parallel restructuring streams in the same loan account – with different repayment and interest plans for each.

For example, a single loan may be made up of overdue balances, regular balances, charges, penalty interest, accruals and off-balance sheet amounts.

Debts should be split into different segments within one account. All of these segments should have unique maintenance, balance monitoring and interest calculation, allowing businesses to tailor repayment plans to customer needs and abilities.

The total balance may be split into a normal repayment plan for the part of the debt the customer can afford to repay, a temporary balance stream for short-term debt review and a stream for the debt forgiveness element of the balance.



A FLEXIBLE APPROACH TO PRODUCT SET UP

Web-based loan management technology offers a complete suite of tools for restructuring and rescheduling – enabling creditors to form combined repayment plans and interest periods for any loan.

The latest loan administration technology can be used effectively by banks, financial institutions and debt purchasers, at both the product origination stage and as loans are repaid and restructured.

The ability to create **tailored repayment plans** using multiple loan repayment options offers huge flexibility to creditors and servicers alike.

Servicers can now rely on a sophisticated product factory with countless capabilities rather than just a simple settlement option, which was till now the 'dogma' of traditional core banking and collection systems.

These plans might include annuity, interest only, step up, split and freeze and capitalization options, which can be combined as desired in a single loan payment schedule.

Different rates can be applied to different amounts held in a loan account with fixed, floating or defined **review periods**. Reviews can be scheduled to take place automatically – for example based on changing market rates, such as **EURIBOR/LIBOR**.

Transactional, periodic or ad-hoc **fees and commissions** can be applied, whether as a percentage or on a fixed fee basis.

Meanwhile, a process of dynamic **payment prioritization** based on chronological order or claim type, different amount types or loan status, can also be enacted, depending on the needs of customers and the business.

Companies further benefit from **customisable thresholds**, allowing products to be designed or varied without the need for IT resources. This offers greater flexibility and reduced costs.

All of these options are available for multiple currencies, with multi-currency and cross-currency operations support provided. This type of flexibility has become essential given the complex and global nature of loan management, along with increasing scrutiny and regulation.

A SMOOTH TRANSITION

A loan management system needs to respond to the requirements of today's banking and collections industry, allowing loans to be managed successfully regardless of whether they enter the collections process.

Applying collections-level expertise to the loan lifecycle from the opening of the account results in a bespoke, smooth process for customer and lender.

This is the alternative to the cost and complexity of traditional core banking systems and customized in-house development.

There are important considerations to be made when choosing core banking and collections software:

Integration: a loan management system must integrate with all systems as some organisations will use it in a standalone capacity, while others prefer to add it into their existing suite of technologies. Open platform integration means fast integration with any existing system with minimal cost using APIs or database sync mechanisms. The system needs to interact with online banking services, mobile applications, ATM Switch and other channels to engage customers effectively.

Migration of data: this must be seamless so that businesses can quickly set up and benefit from an enhanced loan management system. Migration includes not only customer data, but financial reconciliation.

Loan migration is a complex and risky process. A system that assures fast and reliable migration by retaining the existing loan functionality and the contract terms and conditions is required.

In addition, the time frame for such projects is limited, requiring experienced and highly-qualified personnel to perform effectively with guaranteed results. Frequently, after a new portfolio acquisition a critical migration project arises.

Support and expertise: all of these stages, particularly migration, require a team of professional banking experts with experience in migration and carve out procedures. Organisations should ensure they have an expert team in place or that they secure effective support services.

CONCLUSION

Effective and simple end-to-end loan management is vital for banks, financial institutions and debt purchasers. Technology can now accompany the loan through the entire process, without the need for new accounts and systems to be created when restructuring is applied.

Many institutions are relying on technology created and implemented before 2000 – systems need to be updated and modernized but this is not a quick and easy task given the number of people, functions and departments relying on them.

Instead of costly in-house redevelopment, lenders and servicers can use a web-based technology designed specifically for the loan lifecycle. The flexibility this offers means both the customer journey and the in-house view of the loan's journey can be enhanced.

Applicable to both performing and non-performing loans, the technology reduces operational costs and allows for fast deployment, decreasing the time it takes to launch products and service portfolios.

The vast number of non-performing loans across Europe requires more sophisticated restructuring options than have hitherto been available. Instead of duplicating efforts by setting up new accounts for repayment plans, creditors and servicers will increasingly seek solutions that can take a loan from origination to closure, streamlining the administration required.

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QUALCO Loan Manager

QUALCO Loan Manager is a web-based loan administration platform that acts as an end-to-end solution for loan management and servicing. It is ideal for banks, financial institutions and debt purchasers.

Loan Manager covers all stages of the loan lifecycle, including origination, front-end migration, modification, restructuring and rescheduling. It can be used to manage both performing and non-performing portfolios.

The system supports all loan types, including secured and unsecured consumer loans, small business loans, commercial real estate loans and corporate loans. It offers a wide range of interest rates and repayment structures and can be activated quickly and simply.

QUALCO Loan Manager complements our existing **QUALCO Collections & Recoveries** and **QUALCO D³E** products.

BOOK A DEMO

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QUALCO is an expert provider with more than 15 years' proven experience in enabling clients to take control of customer data across the entire credit lifecycle. Whether you are looking to modernise your internal collections platform, delve deep into the analytics of your entire debt portfolio to drive future strategy, or harness the power of external service providers, QUALCO has a solution to help you drive efficiencies and streamline your collections and recoveries operations.

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