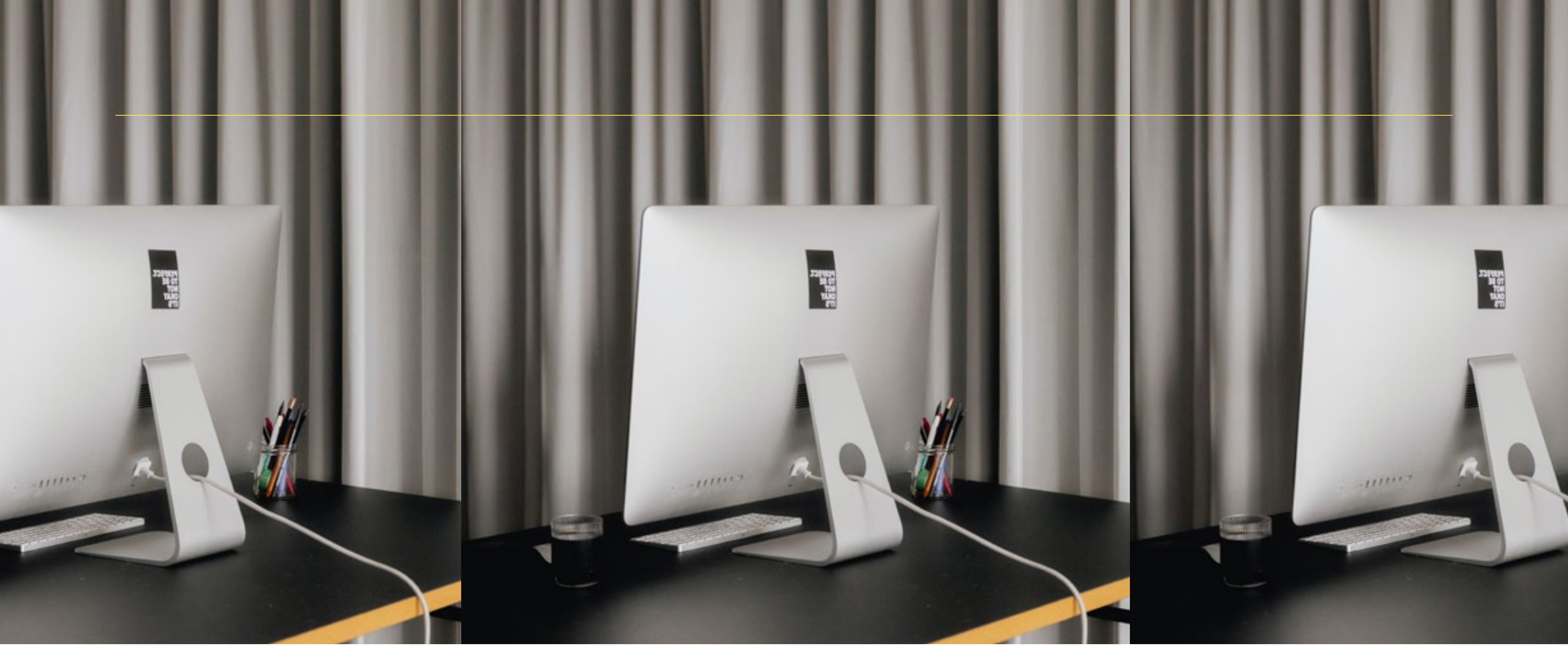
SPARK

At the Crossroads of Digital Lending

Inside the high-stakes risks and big-time payoffs for digitally-adept lending organizations



For decades, lending remained virtually unchanged: relying on the same manual processes while the world around it continued to innovate.

Change has been a long time coming in this industry, and while digital transformation has started to appear little by little over the years, it wasn't deemed absolutely mandatory — until COVID-19 changed everything.

As a result of the pandemic, financial uncertainty and widespread unemployment caused changes in retirement balances and consumer spending habits. The Federal Reserve slashed interest rates, resulting in a spike in home and auto refinance applications from owners looking to save money. And to make things more confusing, Paycheck Protection Program (PPP) mandates for small business loans continued to change almost daily.

If they hadn't already, banks needed a way to make communication more flexible and personalized — in a time when bank customers (small businesses and families) needed them most.

Yet regardless of the pandemic, customer preferences had been changing for some time. With generations who grew up around technology in their prime adult years, customers were (and still are) demanding the same digital experiences they receive from retail and entertainment across every aspect of their lives. They want the freedom to choose how they manage their money, pay for services, finance a car or home, or borrow money. And they have little patience for long, drawn out, manual processes. In fact, 43% of 2020 homebuyers completed their entire mortgage application online. And that's no different when your customers are (small) business owners.

These paint points aren't new. They're just more critical now than ever.

Without the pressure of the pandemic, digital transformation in the lending industry may have taken years more to implement. But crisis has a way of accelerating innovation and transforming things for good.

It's time for a new era of banking and lending technology — one that meets the changing needs of consumers with helpful, digital experiences. While those who have transformed are already thriving, there's still much at stake for those who haven't.

Are you ready?

What's at Stake for the Digitally Resistant?

Change often comes from necessity — and until now, some lenders have gotten by with old processes. But with market share, customer loyalty, and ROI now at risk, can any lender afford not to transform?

LOSING TO THE COMPETITION

With no other alternatives, consumers were previously forced down the path of long lending application processes complete with gathering paper documents, visiting branches multiple times, and waiting for their loan to be disbursed. But today, they can take their business elsewhere to enjoy more streamlined processes, online applications, and the ability to upload digital documents.

This is due to the emergence of "non-banks" who are already making more mortgage loans than traditional banks. Non-bank lenders first overtook banks and credit unions with more than 50% market share back in 2017. And with simplified technology, process clarity, easier approval, and deeper customer engagement than their peers, these non-bank lenders will only continue to accelerate.

> "53% of financial executives feel behind their peers in terms of digital transformation."
>
> **-ADVANTEDGE DIGITAL**

Plus, fintech leaders have also increased their market share of total loans originated, while moving up credit tiers. Though fintech lending got its start in lower tiers of credit, the sector is now consuming more of the A- and B- paper loans that used to go to banks and credit unions as consumers head online first to find the best offers.

Thus, late blooming financial institutions are now playing catch-up just to retain market share. In fact, 53% of financial executives report feeling at least somewhat behind (if not very far behind) their peers in terms of digital transformation.

FORFEITING CUSTOMER LOYALTY

Competing financial institutions aren't the only ones driving change. Modern consumers expect Apple- and Amazon-like experiences across every industry they touch. Unsurprisingly, industries like food service and entertainment have kept up, but even more traditional sectors like transportation and medicine have now followed suit, making it easier for consumers to secure the services they need.

But it's not just younger generations who expect digital-first experiences. In addition to the heavy saturation of smartphones across generations and the prevalence of online shopping, the impact of COVID has made consumers of all ages more accepting of digital-only solutions.

That's not to say consumers don't appreciate meaningful face-to-face interactions. Even then, digital lending processes can streamline and improve branch engagement. When less time is spent gathering documentation and checking boxes, more time is left for lenders to build customer relationships that last.

Plus, digital processes allow for more inclusive lending practices, building consumer insights and demographics into product innovations to serve both high credit consumers and low-income households, students, freelancers, etc. And inclusive lending means more than ever to consumers considering nearly 45% of millennials (a generation of 75 million U.S. consumers) are from racial minorities.

With a plethora of loan options facing consumers, lending institutions must make it as easy as possible to work with them, adapting processes to meet consumers where they spend the majority of their time — online.

MISSING OUT ON ROI

Digital lending also makes better business sense. Digital processes are faster, more collaborative, and easier to use, resulting in higher employee productivity and more loans processed in less time. Plus, automation eliminates the risk of human error, which could equate to time, money, and customers lost.

Currently, it's estimated that 30-40% of lenders' time is actually spent on manual tasks across siloed systems. But lenders who rely on these paper-intensive underwriting processes end up prolonging the loan origination process and likely lose customers (and money) in the process.

Instead, digital lending platforms decrease the number of steps in the process, reducing origination time and shortening time to value.

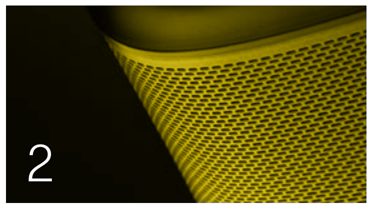
On the Digital Lending Horizon

Perhaps the most compelling reason for financial institutions to digitize is the indication that digital lending is not going away. While some organizations are still making the leap to digital lending, the industry has already moved on to new and exciting tech innovations that are paving the way for industry's the long-term future.

CLOUD

Cloud computing has more than proven its worth over the past 20 years, making it unlikely to recede any time soon.

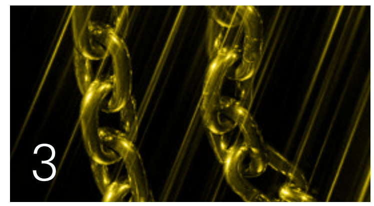
But there's a whole generation of businesses who were "born" in the cloud that have a leg up on institutions still working with legacy systems. Cloud systems allow businesses to break down silos and work off of a common platform, shorten time-to-market for new services, and soften external-facing resources for easier consumer use and self-service. Even core processes such as credit risk management, payment transactions, and customer due diligence have moved to the cloud.



MACHINE LEARNING

Machine learning is the secret weapon of modern firms, automating standard processes and predicting trends to make them even smarter.

Whether alerting lenders when a loan might be headed for trouble or improving the odds of repayment by nudging a small business to prepay during a profitable month, machine learning allows financial institutions to look at data in a whole new way. Researchers already predict lenders will be able to automate as much as 95% of the underwriting process with machine learning, while also making more accurate credit decisions.



BLOCKCHAIN

Though a relatively new technology, blockchain has special applications in the financial industry that can significantly reduce infrastructure costs. That's because loans powered by blockchain present a strong option for consumers looking for more security and trust. Blockchain lending builds on the peer-to-peer model of blockchain ideology and incorporates traditional lending to create a time-efficient, seamless system. When the loan process is online, blockchain allows for a record of documents and transactions to be kept on an anonymous digital ledger, eliminating the need for third parties and intermediaries.

By 2023, the fintech blockchain market is expected to grow to $6,228.2 million, representing a compound annual growth rate of 75.9%.

Where Do We Go From Here?

If the pandemic has taught us anything, it's that things can change at a moment's notice. We're now accustomed to living in a digital world with apps and subscription services to fit every need — and cumbersome paper-based processes no longer cut it.

While consumers still value authentic, human interaction, they value their time and money too. Cloud-based lending platforms are the happy medium that make the most sense for the digital age, prioritizing customer relationships instead of wasting precious time.

SPARK is the all-in-one, cloud-based loan origination platform to lead banks into a new era of lending.

We believe in solutions that benefit everyone. That's why we strive to cut through complexities with a straightforward approach to lending technology for banks, LSPs, and mission-driven lenders. We simplify the loan origination process for everyone from sales to underwriting to disbursement through:

- Automation
- User-centered design
- Deep SBA, and commercial lending expertise

And with continuous software updates every eight weeks, we are continuously enhancing automation and user experience, helping us improve and exceed industry standards, and deliver on changing customer needs.

We're on the forefront of the latest loan origination technology, helping you surpass the competition, heighten ROI, and winning back loyalty with modern processes that are as easy for your team as the customer.

More than that, we believe in banking and lending that does the most good for communities and business owners, combining our expertise and savvy with the service and heart our customers appreciate most.

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Join the next generation of lending at
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