SPARK

Lending Industry Changes to Look for in the Coming Years

SPARK's predictions for 2022 and beyond

What Have We Learned Since 2020?

The year 2020 will go down in history as one of the most unprecedented and volatile years in the modern era — not just for society, but for key industries that aided in the pandemic. The banking and lending sector was put through the wringer in ways it never imagined. Employees were stretched. Processes were tested. Systems were digitized before they were ready.

Now two years later, we have the hindsight to see these changes were for the better, and the lending industry will never be the same again.

In the past year alone, we as an industry embarked on our path to recovery, managing droves of the SBA's Paycheck Protection Program (PPP) forgiveness applications and navigating a new way of working, whether physically present or remote. SPARK added critical new functionality to ease processes and prevent legacy roadblocks from impeding efficiency again.

And still, we have more growing to do.

In this report, we take a look back over 2020 and 2021, using the past to predict the future — from upcoming trends to what banks should look for in a digital lending platform. While the lending industry is not without fads and you-won't-believe-it gimmicks, digitization is one trend that's here to stay.

The Lending Industry is Changing

As with so many other businesses, the past two years were filled with struggles, triumphs, and (above all) learning for the future.

In 2020, we put SPARK's scalability to the test and were amazed by the results. We experienced the "network effect" firsthand. We discovered that digging an inch wide and a mile deep is far greater than a mile wide and an inch deep. We went the distance.

In 2021, we saw the importance of digital transformation play out time and time again. We felt the effects of the nationwide hiring shortage. We reaffirmed our belief that design matters.

The greater lending industry underwent a number of changes in the past few years too, even before COVID-19 hit:

ENGAGING WITH BUSINESS OWNERS DIRECTLY

For most banks, the thought of handling all the scenarios that are likely to occur in a business lending context is too great. They simply lack the know-how, vision, and architecture to wire it all together. While banks do talk to small business owners, it's primarily between those with whom they already have a depository relationship (i.e. existing customers vs. sole borrowers). Banks have traditionally relied more on existing depository customers than other business owners out in the market at large.

But truly engaging with business owners is about connecting with borrowers beyond the purposes of offering them a loan. Banks have traditionally struggled with this because they could simply steer their depository customers to loans when they needed them. This is partly why FinTech lenders were able to gain traction in small business lending. They were better at providing a "shiny digital experience" to businesses knowing banks could not.

Since then, loan origination tools have moved to cloud-based platforms with APIs and the ability to connect user interfaces to the internet. But banks largely haven't adopted them because of their comfort in connecting only with depository customers. Only recently have software platforms for traditional lending even contemplated engaging directly with small business owners. With the rise of FinTech lenders offering better experiences and faster turn around, banks have discovered the need to engage more deeply with borrowers outside of their current customer base.

SPARK'S RESPONSE

At SPARK, this is the first challenge we solve for. As early as 2012, we started collecting information directly from small business owners for SBA 7(a) loans. After taking this approach for nearly 10 years, we've learned a lot and are excited to bring a new, "distraction-free" approach to our next iteration of digital small business owner engagement. The loan application process is complex by nature, requiring multiple forms for each partner, business plans, financials, tax returns, etc., often overwhelming the applicant. In many cases, all of these requirements would be listed or summarized on a single page or a few pages, making the process even harder to complete. Making changes in the UI/UX allows us to limit distractions to the process by:

- Shifting the design to allow applicants to focus on one step at a time, at the right time.
- Providing better visibility toward completion.
- Allowing users to stop/start as needed rather than provide items all at once.

TAKING A CLOUD-BASED APPROACH

Thankfully, the days of bogging down IT with on-premise lending solutions (within the framework of other cloud-based systems) are coming to an end — hopefully forever. Only recently have we started to see cloud-based platforms penetrate the banking segment to become generally accepted through vendor management protocols.

SPARK'S RESPONSE

SPARK exists within the AWS infrastructure, which is protected by Amazon's security and compliance footprint. We provide a virtual infrastructure and the ability to manage it (with performance, reliability, uptime, configuration, replication, etc.), freeing up technology teams from having to police one more thing.

INCLUDING API CONNECTIVITY LAYERS

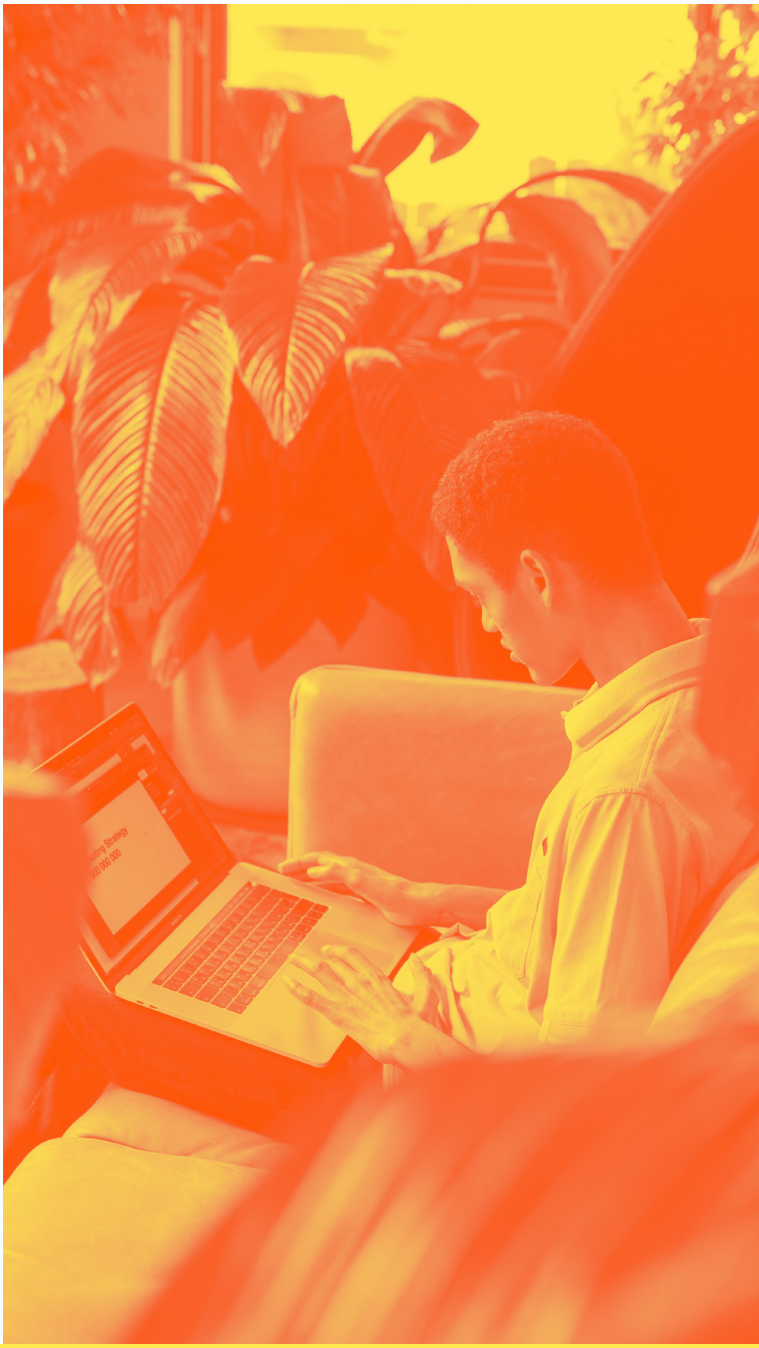
APIs open up opportunities to integrate value-add services into the process that are not available to closed vendors. This may include streamlined CRM integrations, credit scoring, bank account integration, electronic signatures, document archives, and OCR scanning among others. As more innovations are made by other systems, APIs allow future partnerships to come to fruition without requiring complete system overhauls.

But in older operating frameworks, systems from different vendors had a very difficult time engaging with one another. In some cases, this was due to the way the vendor designed the system, which was often kept closed off as a means of inherently creating cross-sell opportunities with customers and increasing wallet share.

SPARK'S RESPONSE

At SPARK, we've architected an open platform from the beginning. Our first major feature was an open API around the entire solution, which we felt would provide more value to the customer to share the data and information inside SPARK elsewhere in the enterprise. Because of this, we're able to speak the language of many other platforms, making it easy to integrate with commonplace enterprise software like Salesforce. We even go so far as to include a "recipe card" of how to integrate the data in our API documentation.

When tools are specialized, there's no need to keep customers from purchasing other software. We know what we are — and what we aren't, and we don't believe in charging customers for access to something that is easy for us to maintain. While some vendors charge for access to their API, we offer it as a core piece of our product.



FOLLOWING A SAAS BUSINESS MODEL

In legacy approaches to software, customers often license the technology for enterprise use. Some organizations charge by the user or the size of the organization, while others leave it up to the salesperson to determine based on the customer's need. At the same time, customers can license the tech to exploit it — using it however they like, how much they like, and as often as they like. But if it needs modification, they're out of luck until the next release, which likely comes with another negotiation.

SPARK'S RESPONSE

SPARK started with a Software-as-a-Service (SaaS) model. Here, subscribing to SPARK means subscribing to the entire team. You receive a piece of the software design team, engineering team, customer success and support teams, virtual infrastructure team, and operations team, who are all set on one thing: building the best loan origination product on the market. We believe in approaching customers as partners — not adversaries — which is why changes, updates, support, infrastructure, compliance, security, thought leadership, strategy, and more are inherently included in a SPARK subscription.

ACCEPTING AGILE METHODOLOGY

Alongside the SaaS model, agile software development and methodology is now heavily used in enterprise operating frameworks. It prioritizes ideation, collaboration, and action above all else, whereas legacy approaches use a safer "waterfall" model that prioritizes due diligence and preparation first, action second. This belief seeps into all facets of legacy software approaches, from software development to adoption, training, and launch. While the legacy approach puts off progress, agile developers are confident in using regularly scheduled releases to fix problems as they arise. In this way, the product is never finished — it can always be improved.

SPARK'S RESPONSE

We employ agile methodology in a number of ways to support faster deployment and the best possible versions of our products at all times. This includes:

- **More new features.** New features and functionality are automatically and consistently delivered about every eight weeks to client environments. Our customer success team is up-to-speed and ready to help users adopt new capabilities as soon as they're launched.
- **Faster onboarding.** Traditional software onboarding involves detailed discovery and planning sessions, long periods of configuration, and extensive training before customers can realize any value. With a pre-configured, SaaS-based product, an agile onboarding process, and an expert customer success team, we can onboard new clients in as little as four weeks and allow them to realize value right away.
- **Shorter feedback loops.** Our product, design, customer success, and support teams are in constant communication with clients to find out what works, what doesn't, and how to ensure the next set of new capabilities delivers the highest value.

How to Respond in a Changing Digital Environment

Now that digitization has made its way into every industry, consumers expect every entity they interact with to meet their expectations for fast, helpful service and tech-forward operations — even banks with legacy processes. On this trajectory, we believe the market will force banks to not only move to the cloud, but adopt the best platform for streamlining lending processes.

Yet, not all solutions are created equal. The best systems are those that:

- Include intuitive, accessible design that's easy to navigate.
- Bring together data from multiple sources and providers.
- Pull in existing data within the bank.
- Require data input only once to be used throughout the entire process.
- Use AI to predict and understand what to do next.

When You're Not the Right Fit

We also firmly believe that if a bank can't serve a customer, it must steward them toward a responsible and reliable source of relief instead of turning them over to the vastness of the internet to find capital. Banks must be aligned to trustworthy and worthwhile alternatives to serve the customer when they themselves cannot.

What's in Store for Lending of the Future

As industries grow and change, there's never a shortage of fads and gimmicks. But there are several movements occurring in the lending industry right now that we believe are not only innovative, but here to stay. Over the next three to five years, we predict deeper response and investment in these trends as the industry becomes more digitally savvy.

1. BLOCKCHAIN

Blockchain has been perceived as both a threat and an opportunity in the lending industry. But loans powered by blockchain present a strong option for consumers looking for more security and trust. In fact, by 2030, blockchain has the potential to add $1.76 trillion to the global economy. When the loan process is online, blockchain allows an anonymous digital ledger to keep a record of documents and transactions, eliminating the need for third parties and intermediaries.

We believe its adoption will occur gradually, then suddenly in loan origination with novel applications slowly converting small pieces of the process. For example, Uniform Commercial Code (UCC) will likely convert to non-fungible tokens (NFTs) running on blockchain.

In lending, UCC most commonly shows up during the process of confirming or adjusting liens on collateral and ensuring the proper documentation is filed with the proper authorities and jurisdictions. In the context of blockchain, confirming ownership of the collateral would only require verifying the transactions on the blockchain (without a central authority required). The titles to the collateral would likely be in the form of NFTs and would be held in the owner's digital wallet when it was purchased. From there, issuing a lien would most likely be another blockchain transaction.

Eventually, as loan ledgers are converted to digital blockchain ledgers, the traceability of currency borrowed, paid, invested, spent, and earned will be exposed to massive transparency, which may look like this:

1. A business borrows currency.
2. The currency is invested in inventory.
3. The business sells the inventory for a "profit" to a consumer.
4. The consumer uses the inventory for a purpose.
5. The business takes the proceeds of the sale and uses it for other things like payroll, rent, R&D, etc.

All of these expenses will be traceable, helping society better understand who or what is of value and if they need attention/investment to grow and thrive.

2. DATA ANALYTICS & PREDICTIVE INTELLIGENCE

Today, most banks function as reactive hospitals with "patients" (business owners) who come to them when they have a problem (need a loan). In the future, we believe the loan origination industry will be the one to reach out first based on the data of the business, proactively intercepting problems before they occur.

For humans, anticipating and tracking these reactions is too complex. But predictive intelligence can foresee the problem, alerting lenders to preemptively approach restaurant owners. This gives business owners a choice: take out a working capital loan now to get through the challenge and pay it back later OR increase menu prices today to absorb the blow when the tension occurs down the road.

Data analytics in action: an example

If a natural disaster occurs in a farming region, it can have detrimental (and sometimes unforeseeable) impacts, including but not limited to the following:

- Thousands of acres of crops are destroyed.
- Animal livestock feed prices subsequently spike.
- The cost of raising livestock increases.
- Restaurants and grocery stores have to compensate, resulting in increased prices or decreased margins.
- Under shrunken margins, restaurants and grocery stores will struggle to pay their employees and taxes, resulting in business failure.

3. INCREASED REGULATION

The banking and business lending space won't become any less regulated in the near term. In fact, the opposite may be true. As section 1071 of the Dodd-Frank Act becomes more of a reality, traditional lenders will be forced to respond.

But those who are well-versed in regulation can provide a specialized offering to those who aren't. In the same way, an organization that is not proficient in regulation may be experienced at interactive design. These organizations can exist in a symbiotic relationship where the strengths of both combine to form a best-in-class offering — one that is both well-designed and meets regulatory hurdles. On the other hand, those that pursue business models while ignoring the regulatory framework play a dangerous game of risk that they'll eventually lose.

Banks and Fintechs actually began teaming up prior to PPP. Fintechs discovered that having access to bank charters was valuable, while banks learned they could acquire or partner with them to advance their customer experience. However, the overwhelming nature of PPP caused Fintechs to fail in executing on the experience, while banks struggled to execute on loan origination.

4. DEFI

Decentralized finance (DeFi) is like peer-to-peer lending to its greatest extent. In the future, when business owners need capital, they'll be able to find it with ease. Most of the lending/borrowing will occur on an immutable blockchain where individuals will interact with each other without a trusted intermediary. The blockchain and its users will provide the trust that banks and others charge for today. Borrowers will no longer need to prove who they are. Instead, they will simply be allowed to transact.

It's still unclear how this world would operate (especially in an industry as regulated as lending), but already, innovators with capital backers are pushing on this disruptive concept as a means of disintermediating the control banks and governments currently place on currency and financial services.

Planning Ahead with a Platform That Gets Better Every Release

One of the biggest differentiators between cloud and legacy software is how it responds to change. Over the past year, we've updated the SPARK platform with new features to address several needs we know and believe the industry is poised to incur.

– DATA VALIDATION EMBEDDED IN LEAD CAPTURE

Embedding data validation directly in lead capture means businesses that qualify for PPP loans are granted access to their lender, while those that don't qualify (or are potentially fraudulent) are kept on the outside looking in. With fewer resources available during Round 2 of PPP last year, the SPARK platform was able to take on more of the screening and origination for customers, enabling origination teams to create more loans with fewer resources relative to Round 1.

– LENDER CONTACT ACCESS

SPARK supports several SBA Lender Service Providers (LSP) who engage with as many as 300-400 banks. With our new lender contact access feature, LSP customers (and specialized lending program creators) are now able to segregate data, products, and processes within their environments to the customers or programs they serve. This enables customers that serve others through the platform to engage on numerous fronts with multiple audiences without requiring individual instances of SPARK. This functionality enables our customers to serve more business owners, advancing the small business community and bringing them in line with our Public Benefit Charter.

– DECISION TRACKING

The majority of lenders use SPARK to originate large, complex, secure transactions. Thus, decision-making processes are more involved for these loans, typically requiring several layers of approval to extend credit. Using SPARK's decision tracking feature, we can help lenders gather approvals from users within the enterprise based on their individual internal approval matrices. We centralize the data and documents required to make an approval and present that information in a clear and concise way to each approver. The decision tracking feature enables organizations to accelerate their decision-making, requiring less time to gather information and equipping small business owners with the capital they need to be successful.

TOTAL EXPOSURE TO CUSTOMER

Banks and other lending institutions often have a difficult time gaining a 360-degree view of their customers' lending history. Coupled with a business's borrowing limits, not knowing how much credit has been extended to them can be detrimental for lenders. SPARK recently re-architected its back-end data structure to enable "total exposure to customer." This means we aggregate the lending activity of each small business customer in the platform, taking it a step further to explore the borrowing history of each principal of the business as well. This way, we're able to help banks understand the full breadth and depth of borrowing activity of both the small businesses they serve and the principals that own and operate them.

PPP FORGIVENESS

In early 2021, lenders began receiving and processing PPP forgiveness applications in droves, which benefited both the small business (whose loan was forgiven) and the lender (whose capital was returned for future lending). When the SBA released new 3508 and 2508EZ forms to aid in this process, the SPARK development team got to work right away to deliver the updated forms and processing framework, allowing lenders to complete the forms before the SBA was even ready to accept them.

PLATFORM REDESIGN

The biggest change in 2021 came with our major update and redesign of the entire user interface. While we initially focused our efforts on a new and improved dashboard experience, it became clear pretty quickly that we also needed to update SPARK's internal screens. Informed by interviews with our customers, we designed these dashboards to surface the most relevant details about loan packages, work assignments, and business-level details to help users maximize their SPARK experience. We touched up thousands of screens and as a result, the SPARK platform now loads faster, is more intuitive, and surfaces important details that were previously buried behind several screens for easier access, speed, and efficiency.

The past couple years have proven that digital is no longer just a "nice to have," but a foundation for success now and in the future. At SPARK, we expect change — and even thrive on it. We anticipate change and proactively prepare for it instead of reacting to industry events once it's too late.

As the industry continues to bounce back from the enormous blow of 2020, it's imperative for banks to have a lending platform that keeps them prepared and able to pivot quickly when changes occur.

Forge Ahead with Confidence

The pandemic taught us that anything can happen. But we can soften the impact of industry and societal changes with proper preparation and digital transformation.

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

SPARK makes things easier through:

- **Regular innovation and releases**
- **Automation and AI**
- **Customer-centered design**
- **Deep SBA expertise**

And with continuous software updates every eight weeks, we aim to enhance automation and the user experience, helping us maintain industry standards and deliver on changing customer needs.

We're on the forefront of the latest loan origination technology, helping you adapt quickly, increase efficiency, and stay ahead of the game with modern processes that allow you to pivot at a moment's notice.

Join the next generation of lending at **lendwithspark.com**

SPARK