auxis
CONSULTING & OUTSOURCING

Bank Leverages RPA to process Loans in Forbearance & Default during the Pandemic

Client Profile

Our Coral Gables-based client is the largest community bank headquartered in Florida, with nearly $8 billion in assets and more than 800 employees. Founded in 1979, it provides individuals and businesses in the U.S. and internationally with a diverse portfolio of financial solutions, including deposit, credit, and wealth management services. The client maintains 27 banking centers in Florida and Texas and a loan production office in New York.

BUSINESS CHALLENGE

The economic crisis triggered by COVID-19 caused a significant increase in loans in default or forbearance or with missed or skipped payments. The client's manual, paper-based process for making special accounting adjustments to its balance sheet when unscheduled or partial payments arrive strained to keep up with the surging volume.

Only a few months into the U.S. lockdown on May 31, the Mortgage Bankers Association had already reported around 4.3 million mortgages in forbearance nationwide, representing 8.53% of total outstanding mortgages. Thirty-day delinquencies are predicted to peak at 14.2% in 2021; by comparison, they topped out at 12.1% in 2009 after the last financial crisis.

The abrupt, unforeseeable spike of loan payments requiring non-standardized accounting treatments created several challenges for our client:

- **Lack of capacity for handling unexpected or unscheduled payments.** When unexpected or unscheduled payments are received for loans previously written off or placed in default, those payments require a special accounting treatment determined by a loan officer. For each instance, the loan officer issues tailored, paper-based instructions to bank employees, who then process the payment in the system and allocate the funds across several accounting buckets including principal, interest, and escrow accounts. After COVID, the number of unscheduled payments increased significantly and the client struggled to handle the volume with existing processes and resources.

- **Work From Home constraints made this and other paper-based processes challenging to execute**, creating even more inefficiencies and delays.

- **Significant accounting backlogs**. The surging number of loans requiring special accounting treatments - and the time-consuming, manual process for addressing them - resulted in backlogs the client couldn't manage in a timely manner.

THE SOLUTION

Auxis used Robotic Process Automation (RPA) to automate the special accounting treatment for unexpected or partial loan payments. Previously used paper-based payment instructions were migrated to a standardized Excel spreadsheet format containing the allocations/treatment underwritten by the loan officer. The bot leverages business rules to interpret the information and process the accounting changes quickly and efficiently:

- The bot identifies the relevant scenario associated with the loan payment and extracts the corresponding amounts for each bucket, properly applying them to principal, interest, escrow, etc.
- The bot then logs into the bank's ERP system and completes the accounting entries (effectively updating the loan on the balance sheet).
- All accounting entries are compiled into the processing batch that a loan officer reviews and approves at the end of each day.

RESULTS

COVID-19 may be the most serious challenge to face the banking and financial services sector in nearly a century, bringing liquidity pressures, revenue and earnings challenges, and uncertainty surrounding credit quality deterioration and recovery values of collateral. With legacy systems and manual processes, banks and other credit institutions are scrambling to build resilient ecosystems that can help them combat future disruptions and economically challenged environments for extending credit.

Automating the cumbersome, paper-based process for special accounting adjustments associated with unscheduled or partial loan payments allowed our client to achieve these key benefits:

Decreased operational costs and turnaround time

Touchless accounting enabled the client to dramatically reduce the time it took to make balance sheet adjustments for unexpected or partial loan payments. This solution freed up **more than 2000 hours (approx. 1 FTE)** and **lowered the overall cost per task.**

Human resources freed to focus on more important, higher value-add activities

Employees freed from repetitive, tedious tasks can accomplish greater amounts of higher-value work within the same timeframe – **driving productivity gains that generate further cost savings**. Automation also gives banks and other credit institutions the **opportunity to rebalance workloads**, relieving the burden on other areas overwhelmed by COVID-related pressures.

Increased resiliency

The abrupt transition to a remote workforce during the global pandemic created significant challenges for banks and credit institutions largely reliant on manual, paper-based processes. Automating the accounting process for loan payments helped **reduce our client's dependency on human workers**, leaving it better prepared to operate amidst Work From Home constraints and future disruptions.

Automation also increases organizational resilience by giving banks the **capacity to focus on functional scope expansion through talent development instead of adding more resources**. Building reskilling capabilities gives banks and other credit institutions the **agility and scalability they need to cope with rapid changes** like the 80-fold increase in origination volume for small- and medium-size bank lending during the pandemic.

Elimination of human error

Robots don't make mistakes, **minimizing rework and process exceptions because data is consistently captured and reported accurately**. RPA also **improves internal controls**.

Amidst margin pressures, cleaner reporting supports better business decisions

Emergency interest rate cuts to boost economic activity and investment amidst the economic crisis have created significant margin pressure at banks and credit institutions. At the same time, U.S. banks more than doubled their allowances for loan losses to accommodate elevated borrower defaults – and S&P Global Ratings asserts they are nowhere near done provisioning for pandemic-related losses.

By enabling cleaner accounting and reporting, automation helped give the client **the most accurate view of its balance sheet. That leads to better-informed business decisions** as banking sectors balance decreased asset quality and creditworthiness with increased demand for lending.

Digitization enables additional RPA opportunities

Replacing manual, paper-based processes with RPA digitizes information, paving the way for additional automation opportunities that can **further improve productivity and efficiency for the client.**

Promoting the automation mindset

The automation's success provided a real-life example of how bank and credit institutions could be improved by RPA, spreading trust and enthusiasm for the technology across the organization. As a result, **employees began to realize other opportunities for improving their workday and the business with automation.**

The client is actively exploring additional automation opportunities. Auxis has already started work on applying RPA to SBA (Small Business Administration) loan eligibility checks, form extractions, submitting loans in the SBA portal, and more.