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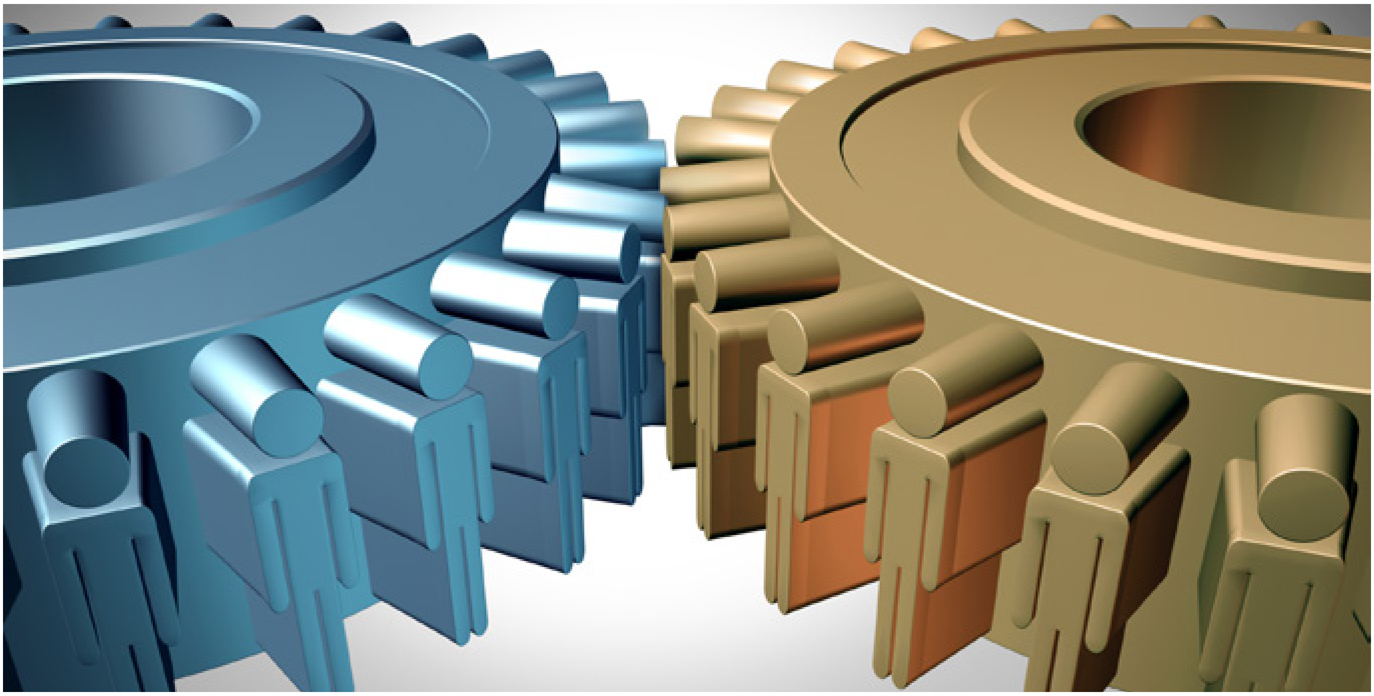

OPERATIONS PLATFORMS: Creating Competitive Advantages

Effective loan serving means leveraging speed and efficiency to ensure capital is being optimized, while also avoiding pitfalls such as compliance issues and late payments. Orion First's Joe Collins describes the combination of technology and human resources needed for successful portfolio management.

By Joe Collins

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When it comes to managing portfolios within the small-business lending market there are a few elements that, when fully accounted for and optimized, can help an organization create meaningful benefits for their customers. Once the pen has hit paper and all underwriting documents have been filed, it is imperative that you continue to add value to your customer with superior service and support until end-of-term. This means that everything from personnel to technology to processes must be aligned.

Efficient servicing organizations have many moving parts, but it all comes down to how well two primary ingredients work together – systems and experience. A smooth internal system supported by empowering technology will manage the complete lifecycle of a portfolio, ensuring that payments are accurately accounted for, taxes recorded on-time, regulations met, and portfolio data gathered. The second factor can only come with time – because nothing beats experience. As an organization matures within the lending industry they not only amass wisdom, best practices and technical know-how; but also establish ties throughout the market space to support their efforts and help them provide the highest quality of service possible.

Systems that run smoothly help companies reach a level of scalability -- increasing their speed-to-market, enabling portfolios and new lending products to be easily integrated, and ensuring that new customers and vendor partners are quickly on-boarded. Efficient operations help keep the team on track and allow senior leadership to focus their efforts on their core strengths -- developing their business, finding new customers, and creating funding strategies for their specific needs.

Success in the portfolio management market space is all about minimizing and managing risk, while maximizing revenue. Effective internal systems support both; efficiency minimizes costs, and a nimble, flexible, adaptable process enables maximum revenue.

Three of the more isolated components of portfolio management also bring additional value to customers and help ensure success in the small-business lending industry. Soundly managing portfolio risk, commercial collections, and regulatory compliance all rely on a combination of lean internal systems and human experience.

Proficiency in collections is indeed something that can be augmented by technology and other systems; however, there is a human component that must never be overlooked or undervalued. Many of the staff dedicated to collections have years of experience practicing the verbal skills and necessary rapport-building techniques to ensure a late payment doesn't turn into a non-payment.

In many cases, it is the personal touch that turns a 45-day late pay back to good standing rather than becoming a 60-day delinquency. Having proven systems in place to quickly identify anomalies and adverse changes in payment patterns is often done through the vital pairing of a well-trained collections staff, with the right tools and technology to augment their expertise.

This pairing allows for internal processes to function smoothly, helping collections staff hit the ground running to take action against underperforming portfolios. Should a borrower enter the downward spiral of late payments and eventual default, effective collections staff know what steps to take from the beginning to build a unique recovery plan.

Because every case is different, a special asset recovery plan must reflect the individual scenario in question to maximize the debt collected, while keeping the process as painless as possible. Once again success hinges on the value of experienced collectors. Because there are often many moving parts in a collections case, personal know-how can keep recovery efforts under control.

Some of the factors required for implementing a successful recovery plan are payment and debt history; recent business expenditures; debt owed to third-party lenders or business partners; and much more. Contacts outside the organization can be vital resources during collections. Investigators locate stakeholders, and litigators prepare legal actions to ensure timely recovery, if necessary. With a strategic asset recovery plan in place and effectively implemented, customers can be put back on track of fulfilling their obligations without draining a lenders' limited resources.

Another step that can add additional value for customers may and protect portfolios from unexpected loss, like a surprise computer system crash, is to put back-up servicing in place to keep their customers' data safe, and their portfolios performing optimally.

Keeping additional records of the portfolios being serviced is not only smart, it is becoming a more frequent requirement of some outside funding and capital partners. For example, banks and investors often require back-up servicing to guard against disruption should a finance company run into problems.

Although taking a loss during servicing is less flashy than during collections, or say an episode of Repo Men, back-up servicing can help protect against inaccurate record keeping, data loss, a security breach, or if the primary servicer underperforms or goes out of business completely. Should an issue arise, a properly backed up portfolio allows the owner to immediately take over portfolio management and protect their investment. In the case of a servicer change, the backup records will support the continuity of portfolio data and help ensure a seamless transition to a prepared new servicer.

Effective portfolio management operations add an additional competitive advantage by keeping processes and client portfolios safe and secure. A strong history of successful portfolio management demonstrates an organization's commitment to remain compliant with national watchdog organizations that monitor the dependability of service companies, and the quality and consistency of their internal systems.

Portfolio managers are wise to employ an internal compliance officer whose sole focus is to ensure that all services performed consistently observe industry regulation. Failing to comply with things like tax codes, or simply keeping proper customer payment records can damage both your organization and the health of your customer's personal and business credit. Organizations such as the AICPA Service Organization Control Reports provide a means to audit and identify weaknesses in operations; giving an opportunity for continual quality improvement, and a way for stakeholders to monitor their operations.

No business can function smoothly without an internal system guiding the workflow and keeping teams on track. Loan and lease portfolio management is certainly no exception. Although establishing efficient systems isn't the easiest or sexiest job on the planet (or in the finance industry) its value is nearly unmatched for the organization. In an industry so dependent on contract and data oversight, offering portfolio management services without a well-tuned internal process is both dangerous and irresponsible.

When building and managing a portfolio it is essential to give thoughtful consideration to the points raised here. Jumping ahead in a direction without careful consideration can lead you down a road that puts investment into an operation that drains valuable time and constrains capital that could be used for originating new business and growing revenue. Ending up in a place with too many fixed costs unrelated to revenue-generating activity is not where you want to be. So give thoughtful consideration to how you're building your company.

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