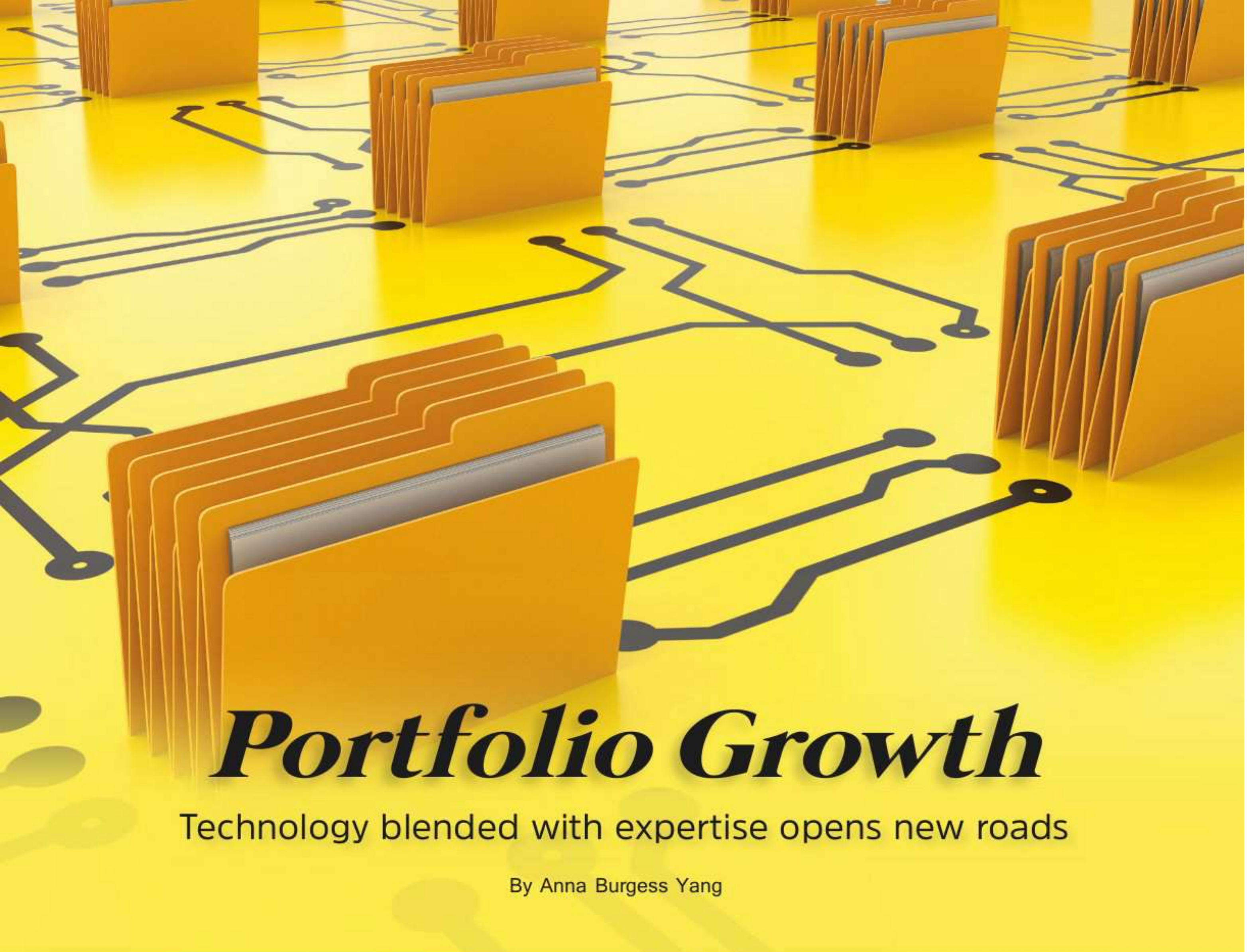

Portfolio Growth

Technology blended with expertise opens new roads

By Anna Burgess Yang

There are age-old questions that banks must ask when considering their loan portfolios. What types of loans do we want to originate? What should our portfolio mix be? What is our risk tolerance? The answers shouldn't be static: Rather, they need to reflect an ongoing comparison of the loan portfolio to the bank's overall goals, along with an evaluation of changes within the market and communities being served.

Changes must always be weighed against potential risks. Diving into a new area of lending, without internal expertise to support it, can introduce poor lending decisions. Aggressive growth can sacrifice loan quality, and so on. Yet, when banks identify the right opportunities to differentiate themselves from their competitors, they can introduce new loans into their portfolios that are rewarding — both by increasing profits and meeting the bank's overall mission.

We spoke with three bankers who had specific goals for their loan portfolios. While each took a different approach, they found a path to meet their goals.

Nonprofit lending

Courtney Olson

Courtney Olson is exuberant when she talks about her portfolio of nonprofit customers at First Bank of Highland Park in Illinois. For her, understanding the mission of the nonprofit is essential, along with understanding how to assess its overall health. Because, of course, the financial statements of a nonprofit look very different from other commercial borrowers, and many banks aren't comfortable with underwriting a nonprofit loan.

When Olson inherited a portfolio of nonprofit loans in a prior role at NorthSide Community Bank in Gurnee, Ill., she dove right in. She said that she reached out to the auditors and accountants of the nonprofits and asked them to walk her through the financials so that she could explain them to the approving authority at the bank. "It really was taking the extra time to say: 'You know what, I don't get this, but walk me through it,'" she explained. "And it's only helped my clients in the future."

As senior vice president and managing director of business banking at First Bank of Highland Park, she works closely with a credit analyst to understand the nonprofit's business and get loans approved. Her passion for wanting to help nonprofits "meshed well" with the philanthropic mindset of First Bank. The bank has a culture of giving through community outreach, grants, and volunteerism. Olson's work with nonprofits also helps meet the $1.9 billion bank's CRA and community development requirements.

Olson acknowledged that having the right tools to analyze nonprofit loans is a challenge. The bank-wide spreading tool was a "square peg in a round hole" due to how much nonprofits differ from other commercial borrowers, from the line items on financial statements to the terms used. Olson and the credit team used their expertise to develop an internal method for underwriting, though she says they recently added a product called Vertical IQ to their toolbox. Vertical IQ allows the credit team to pull financial guidelines for nonprofits based on industry data. Armed with this information, Olson said it preps her with additional knowledge so she can have "more fluid conversations" with her nonprofit clients.

The underwriting process and subsequent approval for nonprofit loans involve understanding how the organization raises money (such as grants, individual donors, or large donors) and then looking at how the loan proceeds will be used to help its mission. Some need lines of credit for use while they wait for grant money to arrive or to fund specific projects. One of Olson's first nonprofit loans was the expansion of a building for an organization that helped people with developmental disabilities.

Working in such a niche sector of lending, Olson often wears an "advisory" hat. She offers to look at the financial statements of her clients and give feedback, and talks to nonprofits (especially younger ones) about the importance of having reserves. Looking back to March of 2020 when the Covid-19 pandemic struck, Olson feared that many of her nonprofits would not survive. "I was fearing mass exodus," Olson said, "And then as the months went on, it was just so great … to see that people really stepped up to the plate to help these organizations."

Olson's passion for and expertise in nonprofit lending are a perfect match, allowing her to successfully manage the portfolio. She stays well-connected, participates in fundraisers, hosts webinars, and often receives referrals for additional nonprofit business. Whereas other bankers may shy away from the nonprofit world, she charges ahead.

Patient lending

Commercial borrowers may offer limitless opportunities for niche lending. After all, lenders like Olson can develop sharp expertise within a particular industry and carve out a distinct portfolio within a community. Consumer lending is another ball game: Fewer unique products, often at smaller loan amounts, and competition from online lenders, credit card companies, and other nontraditional sources. However, Bank of Colorado in Fort Collins found a way to grow its consumer portfolio with a high volume and low overhead.


Shawn Osthoff

In the early 2000s, Rocky Mountain HMO approached Bank of Colorado with a need to help their patients pay medical debt over time. The bank agreed to provide loans and the HMO would guarantee the notes.

While the bank was able to build up a portfolio of several million dollars in patient loans, the loans required manual, intensive work from origination through booking. Shawn Osthoff, president of the $6.2 billion bank, knew they needed to come up with a better solution to meet the challenge of processing patient loans.

Bank of Colorado hired Epic River, a fintech company in Loveland, Colo., to develop a platform that would be entirely paperless. Epic River already had an e-signature platform, ProSign, in conjunction with Finastra. An online portal was developed, and a representative at Rocky Mountain HMO could set the customer up with the note and collect the necessary signatures. Bank of Colorado then purchased the note and assumed the customer relationship for billing and collecting payments.

Osthoff said the process worked seamlessly. And it occurred to the bank that if Rocky Mountain HMO was having trouble

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collecting payments from patients — a problem alleviated by patient lending — then other providers likely had the same issues.

Bank of Colorado partnered with other hospitals in the communities where it operated its 55 branches. Epic River, in turn, brought other community banks and hospitals together, after seeing the success of the patient landing platform at Bank of Colorado.

A loan statement coming from a bank "dramatically improved" the collection rates for Rocky Mountain HMO, Osthoff said. "And we've seen that with other hospitals as well," he added.

With patient lending, Bank of Colorado ended up with a substantial portfolio of small loans. Osthoff notes that with the strength of a hospital guarantee combined with the patient lending solution from Epic River, there is very little effort and very little risk. "We were looking at it as a way to use up some of our excess deposits, diversify our loan portfolio, and make a reasonable yield," Osthoff said, "I think as we see other fintechs … pop up like this, we've got to take a look at them and see how they can make an impact on our bank and customer base."

Tech abets credit management

When Jeff Bajek joined Platinum Bank in Oakdale, Minn., in 2019 as chief credit officer, he knew that technology would be the way to support the bank's growth objectives. At the time, the bank was around $246 million in assets, with a focus on C&I, entrepreneurial and SBA lending.

"We were aggressive in doing as much volume as we could for a bank our size," Bajek said. "We took the approach [that] we're going to originate to … as many new prospective clients that we could find that needed some help, that weren't getting served by the larger banks."

Platinum Bank brought on a number of new clients through the Paycheck Protection Program, but like many banks, it did not have any technology in place to help the process. Ironically, the bank had signed an agreement in January of 2020 to purchase nCino, an end-to-end loan management system with capabilities ranging from loan origination to compliance. The bank was three weeks from beginning implementation when the Covid-19 pandemic hit. Bajek said the bank had to make a decision about continuing with the roll-out amid uncertainty within the market and potential strain on its internal resources. Ultimately, he said, the leadership team decided to move forward.

"It was critical for us to get a system in place," Bajek said. "We were operating with a lot of old-school processes [to manage] credit risk within the portfolio. Information was scattered in multiple areas within the bank's infrastructure. We really needed to set the bank up for growth and manage that risk."

With the industry changing at a rapid pace, loan departments often must shift quickly to adapt. One way that Platinum Bank adapts is through APIs: Connections that can be made between nCino and other vendors, so that data can be passed back and forth. Bajek says that some of its connected vendors provide services such as UCC searches, credit reports, and ordering appraisals and environmental studies.

"I think one of our key differentiators we can provide [to] our clients is speed of decision and speed of origination," Bajek said. "We want to speed up the process without losing that credit focus of making good credit decisions. We think we can combine those two."


Jeff Bajek

Bajek's focus on efficiency has paid off. In the two years he has been at Platinum Bank, the C&I portfolio has grown to $153 million from $83 million, and the bank has been recognized as the No. 2 SBA lender in Minnesota by dollar volume.

Bajek's advice to other banks considering a technology partner to meet internal goals is to make sure that all key stakeholders are involved because a new system can touch so many departments. He also thinks that banks need to not let cost be a barrier, pointing out that "you don't make one penny until [the loan] is originated" so getting loans on the books more quickly means that the bank starts earning interest sooner and sees the ROI from its prospecting efforts.

Uniqueness: A differentiator

What these three banks have done, in addition to meeting loan portfolio goals, is find a way to offer something unique, from niche lending to a better borrower experience. Jeff Grobaski, CEO of Epic River, has found that banks can be hesitant when they consider ways to expand their loan portfolios. "[It] brings something totally new, that nobody had been thinking about or been able to figure out in the past," he said, "And so it's just new and different."

Yet differentiation is often key to loan portfolio growth. It has to be obvious and tangible to borrowers: That their chosen bank is offering something that they can't get anywhere else. ◆