

2024
**BUDGET
PLAYBOOK**

for

Commercial Lenders

Bank and Credit Union Edition

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Commercial Lending State of the Union

If the last few years in commercial lending have felt like a roller coaster to you and your financial institution, you are not alone. With enough twists and turns, steep rising climbs, and a lot of uncertainty about what's coming next, even the most stalwart commercial lenders have been on the edge of their seats. To quickly recap, we've seen:

- Interest rates, which just a few years ago were on a steady and even track, suddenly rose like the first big hill of the Top Thrill 2 at Cedar Point in Ohio. Steadily climbing, we all just waited impatiently for the top of the hill to arrive while trying to balance the needs of new borrowers seeking at least short-term capital and existing borrowers looking for refinancing options. We now sit at the top of the hill as the first cars (and interest rates) start their drop down. What we can anticipate is that the ride down will be less steep, quite jerky, and unfortunately about as much fun as the trip to the top.
- Risk and uncertainty in the economy thinned out the lines waiting to ride, and banks and credit unions ceded their position in lending to private lenders who eagerly seized on the opportunity to capture market share.
- Regulatory changes put a greater level of scrutiny on banks and credit unions to demonstrate safety and soundness, resulting in what felt like a never-ending harness check. Providing the same experience to a borrower became more time-consuming, more work, and more expensive to deliver.
- Rising delinquencies made everyone a little queasy.

While there is a lot of uncertainty in what happens next, you can expect the next few years to be nothing short of exciting and challenging – dips up and down from interest rate adjustments and shifting economic forces, twists and turns from changes in regulatory compliance, and a couple of surprises you may not anticipate needing to brace for. The good news is that just like a roller coaster, the stress will come to an end, and at some point, we'll be back on firm ground.

Analogies to amusement park rides aside, in this time of stress and uncertainty, it's critical for financial institutions to think about overcoming the challenges we've faced in commercial lending NOW and to prepare for the future by executing a series of well-thought-out plays.

This *Budget Playbook for Commercial Lenders* explains the challenges commercial lending has faced in recent years and offers strategies and guidance on how to overcome them going forward. This includes practical advice on how to allocate budget dollars to technology and workflow improvements that will give financial institutions an edge against the competition and protection against the uncertainties that financial institutions will continue to face.

Commercial Lending is at a Crossroads

For many years, digital transformation investments at financial institutions have focused on areas of banking that touch consumers, usually at the expense of commercial teams and their customers.

Commercial customers typically generate a larger share of revenue, depository and other financial product usage, profit, and retention to most financial institutions and, therefore, should not be neglected in terms of the products, services, and experiences they receive. Understandably, the uncertainty within the economy and commercial real estate over the past few years has made it challenging to focus on investment in improving commercial lending and operations.

Let's look at some of the recent factors that have led to the current state of commercial lending at most financial institutions:

Interest Rate Uncertainty

The **interest rate** environment continues to be a challenge for those looking to lend. Rates have been high, and despite a recent cut to rates, there is a lack of consensus on where they go from here and how much impact continuing to cut rates may have on the economy.

Delinquencies

Delinquencies have increased across the board but are being most felt where vacancy rates are high, such as for lenders with high concentrations of office and retail lending in their portfolios. Interest rate reductions should help, and improvements have been made in pockets of CRE, such as multi-family lending. But the looming wave of commercial loans coming to maturity during 2025-2026 will add to the challenges faced by lenders with large commercial loan portfolios.

Private Lenders Gain Ground

Banks and credit unions have **pulled back their CRE lending** in recent years, **ceding market share to private lenders**. While there are signs of improvement in interest rates and the economy, financial institutions remain cautious about leaning back into CRE. This is especially true for larger banks with heavy concentrations in CRE lending.

Margin Improvements

Commercial lending still represents one of the **strongest asset classes** for financial institutions. While interest rates, the economy, and rising service costs have put pressure on returns, there is an opportunity for margin improvement by advancing the technology that supports back-office operations.

Adapting to Evolving Regulations

It is becoming increasingly difficult to maintain compliance amidst constantly changing regulations designed to protect consumers and businesses and to help financial institutions from making decisions that are rooted in risk. Gaining confidence in **overcoming the challenges and burden of dealing with risk and compliance**, and using that to improve product and service offerings, is one of the most important ways financial institutions can **differentiate** themselves in a competitive market.

With the economy starting to show signs of improvement, financial institutions need to re-visit their lending processes in anticipation of the 'next wave.' The pages that follow will give you practical budgeting strategies to be ready for what's to come.

Budgeting Strategies for Financial Institutions to Capitalize on Commercial Lending

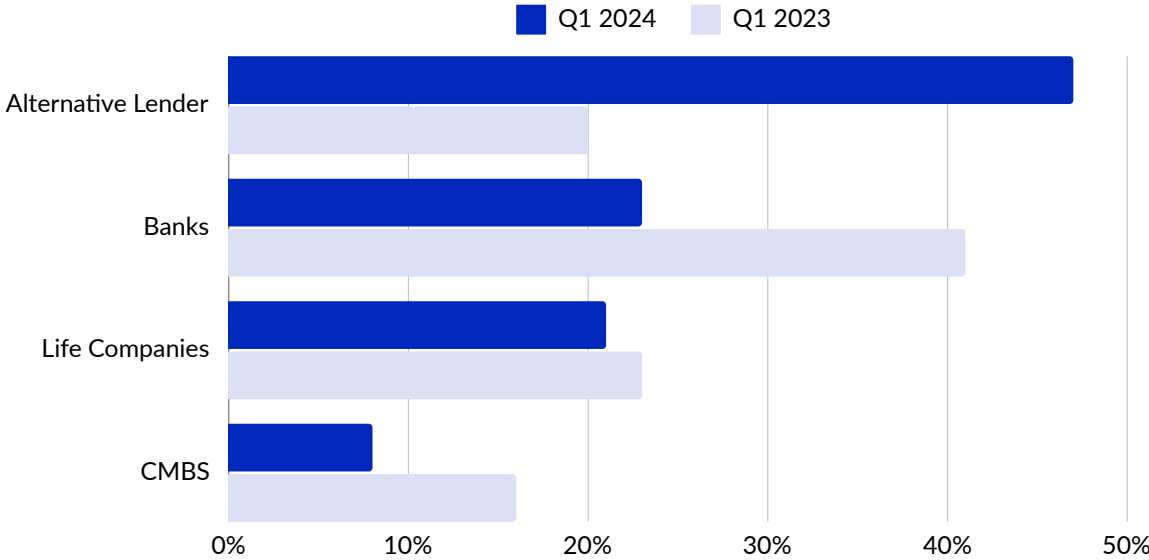


STRATEGY 1

Reallocate Budget to Reclaim Market Share

In recent years, the commercial lending market has shifted, with private lenders capturing significant market share as traditional banks and credit unions scaled back their lending activities due to economic uncertainty and increased regulatory costs. Private lenders, operating with fewer regulations, have been able to offer quicker loan closings and more flexible terms, appealing to borrowers needing fast capital or those unable to meet the stricter criteria of traditional institutions.

Lender Composition Q1 2024



Reflects non-agency commercial/multifamily loans.
Source: CBRE Capital Markets, CBRE Research, Q1 2024

To counteract this, financial institutions can strategically reallocate their budgets toward streamlining loan processing and modernizing their offerings. By investing in automation, improving risk assessment tools, and optimizing customer service, banks and credit unions can capitalize on their inherent strengths—such as lower interest rates and deeper, relationship-based banking. These efforts will allow them to regain market share while maintaining cost efficiency.

Key Drivers Behind the Growth of Private Lenders

Fewer Regulatory Constraints

Without the same level of regulatory oversight, private lenders are able to offer more adaptable terms and conditions. This gives them a competitive edge in terms of speed and flexibility, which is highly attractive to borrowers needing quick capital.

Faster Closing Times

Private lenders are often able to move through the loan approval and funding process more quickly than banks or credit unions, giving them an advantage in a fast-paced market where time is of the essence for borrowers.

The Cost of Borrowing from Private Lenders

While private lenders offer faster access to capital, they generally charge higher interest rates than banks and credit unions. This can result in greater financial pressure on borrowers, especially those seeking short-term loans. Additionally, the lack of a relationship-focused approach can leave borrowers without the broader financial guidance and support they may need to achieve long-term financial stability.

Banks and Credit Unions: Positioned for a Comeback

While private lenders have gained ground and invested in modernization to improve their borrower **experience**, banks and credit unions can successfully reclaim some of their lost market share by emphasizing their strengths—relationship-based banking, a wide array of financial products, and long-term stability. Financial institutions typically seek to build broader relationships with borrowers, positioning themselves as the depository institution of choice and offering cross-sell opportunities, such as credit cards, lines of credit, and investment products. Financial institutions are generally able to offer lower interest rates compared to private lenders, making them a more attractive option for borrowers looking to minimize their cost of capital.

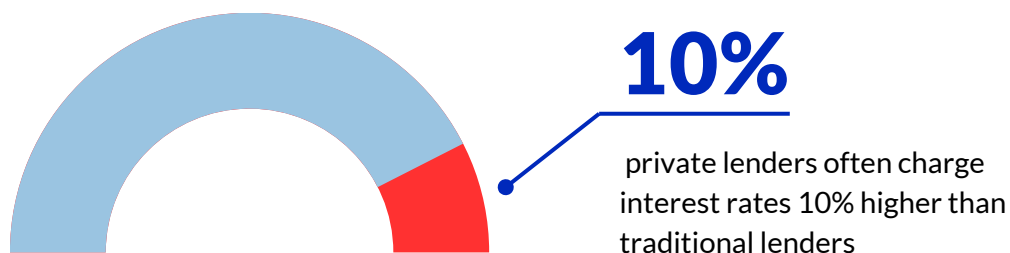
Key Strategies for Financial Institutions to Reclaim Market Share

Emphasize Relationship Banking

Traditional financial institutions can leverage their ability to build long-term relationships with borrowers, especially as studies show **71% of banking consumers** prefer dealing with people when managing complex services.

Offer Competitive Rates

Highlight the **lower interest rates** and terms available through regulated institutions. Banks can underscore the difference in cost by noting that private lenders often charge interest rates **10% higher** than traditional lenders.



Cross-Sell Financial Products

Offering a range of services is crucial as **57% of surveyed customers** prefer the convenience of bundled products, and **42% of surveyed consumers** say they would be at least somewhat likely to leave a bank that did not bundle its offerings into a package for their convenience.

Streamline the Loan Process

Banks and credit unions are facing increased regulations, but advancements in technology, such as the **automation of loan processes**, can help reduce processing times. Fast processing times have become an expectation for modern financial consumers. According to McKinsey, automating these processes can shorten loan **processing times by 15 to 40%**.

Position for Market Improvements

As economic conditions improve, banks and credit unions should position themselves to take advantage of increased demand for lending services by marketing to borrowers long-term stability and relationships over short-term convenience.

Now is the time for banks and credit unions to get back in the game and leverage their unique strengths to serve the needs of borrowers. As the market continues to evolve, those institutions that prioritize efficiency, relationships, and comprehensive financial services will be best positioned for long-term success.

Taking Action

By emphasizing relationship-based banking, offering competitive rates, and investing in the technology necessary to speed up the loan process, banks and credit unions can once again become the lenders of choice as market conditions improve.

Must haves in this area include:

- **Customer Relationship Management (CRM) Systems:** Invest in advanced CRM capabilities to track and manage customer relationships, interactions, preferences, and feedback. This helps provide personalized service and effectively cross-sell products and services targeted to specific needs.
- **Process Optimization:** Conduct regular reviews of your loan process to identify and eliminate bottlenecks, ensuring a smoother and faster experience for borrowers.
- **Marketing Campaigns:** Launch targeted marketing campaigns that highlight the stability and long-term benefits of banking with your institution.



STRATEGY 2

Improve Lending Operations Efficiency

The lending landscape has become increasingly complex and costly. Over the past few years, the cost to produce and service a loan has risen sharply, driven by rising salaries, regulatory burdens, and the complexities of lending across multiple jurisdictions. As compliance requirements continue to grow, lenders face the dual challenge of managing regulatory risk while maintaining profitability. Given the current environment, driving revenue growth alone may not be sufficient to improve margins. Instead, lenders must focus on improving operational efficiency through digital modernization, automation, and streamlined processes.

Digital Transformation



30%
reduction in cost per loan

With operational costs rising, **digital transformation is essential**, as it can generate **cost savings of 30%**. This is especially vital for banks as labor costs increase and regulatory compliance adds complexity.

Key Factors Impacting Costs

Increased Labor Costs

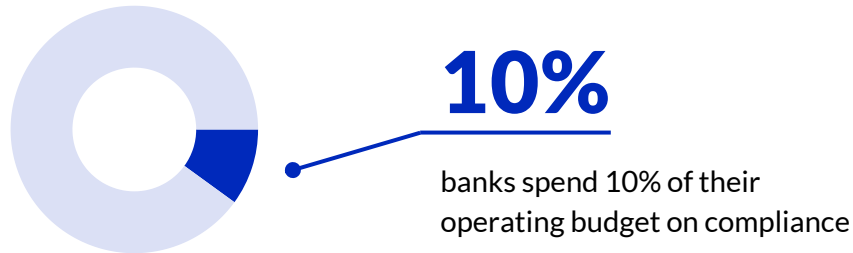
In the last few years, the **cost to produce a loan has surged by 35%**, driven by wages and growing regulatory requirements. Automation of loan documentation can positively impact both labor costs and compliance, as we'll discuss in greater detail below.

Rising Interest Rates

As interest rates increase, both lending and borrowing costs rise. Financial institutions need to streamline their processes, with **61% of bank executives** reporting that cost reduction has become a high strategic priority.

Cost of Compliance

Compliance costs are a significant concern, with **banks spending 10% of their operating budget on compliance**. Each new or modified regulation, and each additional jurisdiction the lender operates in, introduces new challenges lenders must navigate that impact the effort and cost associated with closing a loan. Reducing these through automated workflows could save millions annually.



Shrinking Margins and Compliance Burdens

Shrinking margins represent a major concern for lenders, particularly as the cost of doing business continues to rise without corresponding increases in revenue. Regulatory compliance has added to this burden by requiring lenders to devote more resources to monitoring, reporting, and adhering to complex lending rules. For lenders operating across multiple jurisdictions, the risk and complexity are amplified. Each jurisdiction often has its own set of regulations, making compliance even more costly and time-consuming.

Expanding Margins by Focusing on Efficiency

Given the current environment, many lenders are finding revenue growth alone an insufficient means to improve margins. Instead, lenders can expand margins by focusing on improving operational efficiency. By modernizing legacy systems, replacing manual processes with automation, and streamlining workflows, lenders can reduce the cost and complexity of loan production and servicing. These improvements can save time, reduce errors, and drive faster loan closings—all without requiring additional staff.

Key Strategies for Financial Institutions to Realize Efficiency Gains

Modernization of Legacy Systems

Many lenders continue to rely on outdated loan origination and servicing systems that are inefficient and prone to errors. Modernizing these systems with cutting-edge technology can streamline processes and reduce overhead costs.

Workflow Optimization

By reevaluating and refining internal workflows, lenders can identify bottlenecks and inefficiencies that slow down loan processing times. Streamlined workflows allow loans to close faster and with fewer resources, resulting in lower costs and higher borrower satisfaction.

Automation of Manual Processes

From data entry to document review, many stages of the lending process still require significant manual intervention. Automating these tasks not only reduces the time and labor involved but also minimizes the risk of human error. A [Boston Consulting Group study](#) estimated that banks embracing digital transformation could save between 15-20% on processing costs, thanks to process automation and digital tools, and enjoy improvements of 20-40% in efficiency and reduced errors.

One of the most significant advantages of improving efficiency is the ability to close loans faster. Technology and process improvements can streamline every stage of the loan lifecycle, from application to document preparation and closing. Lenders who embrace these strategies will be better positioned to navigate the challenges of rising costs, shrinking margins, and regulatory complexity while remaining competitive and profitable.

Taking Action

Financial institutions should make it a priority now to update outdated systems to reduce inefficiencies and cut costs, and to replace labor-intensive tasks, reduce errors, and improve compliance.

Must haves in this area include:

- **API Integration:** Implement [APIs to connect legacy systems with modern applications](#), allowing for smoother data flow and reducing the need for manual data entry.
- **Vendor Partnerships:** Partner with fintech companies that specialize in modernizing and automating lending workflows to leverage their expertise and technology.



STRATEGY 3

Allocate Budget Dollars Toward Improving the Borrower Experience

In today's highly competitive lending environment, borrowers have an array of options to choose from, making it essential for financial institutions to differentiate themselves by delivering exceptional borrower experiences. The rise of more sophisticated private lenders and advances in technology have significantly changed the borrowing landscape. To stay relevant and competitive, financial institutions must focus on providing speed, flexibility, and convenience while fostering strong relationships with their clients.

The Demand for Flexibility and Personalization

One of the most significant shifts in borrower behavior stems from the desire for flexibility. Borrowers no longer accept rigid terms and a one-size-fits-all approach. They expect lenders to offer solutions that meet their unique needs and preferences. Whether it's the structure of the loan, the speed of processing, or the way they interact with their lender, borrowers want control over the experience.

Borrower Preferences

Adaptable Loan Terms

Borrowers want options for payment schedules, loan amounts, and interest rates that fit their personal or business needs.

Personalized Interactions

Customizable communication and loan management solutions help build a stronger connection between borrower and lender.

Consumers are more likely to choose institutions offering tech-driven convenience, and banks must adopt technologies like online loan portals and eSignature to attract and retain borrowers. Additionally, adopting technologies that streamline processes that go “unseen” by borrowers can still impact the customer experience. Automating parts of the loan process, including underwriting and documentation, can reduce closing times, significantly improving customer satisfaction.

Speed, Predictability, and Convenience: The Modern Borrower's Priorities

Although borrowers value flexibility and speed, predictability and convenience remain their top priorities when choosing a lender. Borrowers will generally pay more if it means a faster, more predictable loan process. This has given rise to a shift in focus from simply offering competitive rates to providing an efficient, seamless experience that saves time and reduces friction.

In this era of instant gratification, lengthy loan approval processes and delays can drive potential borrowers to competitors. Lenders that prioritize quick decision-making, streamlined document production, and reduced closing times will position themselves to win new business.

The Role of Technology in Enhancing the Borrower Experience

Technology has transformed the lending industry, offering solutions that improve speed, transparency, and borrower satisfaction. The adoption of digital tools such as eSignature, online loan portals, and automated underwriting processes has enabled lenders to deliver a more efficient experience, particularly in areas that matter most to borrowers, like faster closing times and enhanced convenience.

Key Technological Advancements

eSignature

Allows borrowers to sign documents electronically, significantly reducing closing times and improving the overall experience.

Compliance Automation

This **technology** accelerates loan creation and approval and ensures that borrowers receive decisions quickly and accurately.

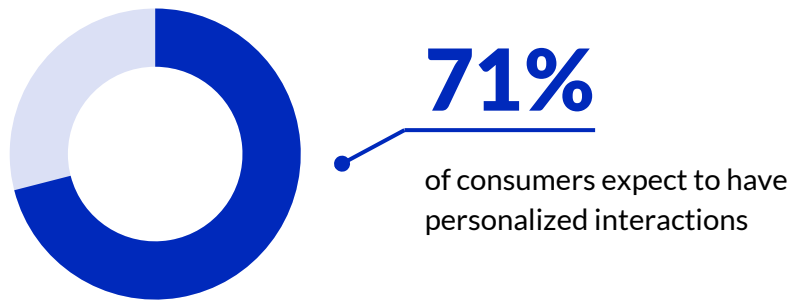
Digital Portals

Provides borrowers with access to their loan information, payments, and direct communications with their lender.

The Importance of Relationship Building and Repeat Business

While new customer acquisition continues atop the list of key objectives for most lenders, repeat business can often add greater value. Satisfied borrowers will go back to the well for subsequent banking needs, refer more clients, and require less investment in marketing and acquisition. By focusing on building long-term relationships, lenders can increase customer lifetime value while simultaneously lowering Customer Acquisition Costs (CAC).

In a marketplace where borrowers have numerous options, lenders must prioritize improving the borrower experience to remain competitive. Flexibility, speed, and convenience remain paramount, and technology plays a vital role in meeting these expectations. Personalization, too, is key to retention, **according to McKinsey**, research shows that 71% of consumers expect to have personalized interactions. When personalization does not happen, 76% of consumers express frustration.



By adopting a borrower-centric approach, lenders can increase satisfaction, reduce costs, and create a loyal customer base that provides long-term value.

Taking Action

Financial institutions should provide borrowers with tools and experiences that reflect what they are used to seeing in other markets, making it easier to do business with you.

Must haves in this area include:

- **eSignature Platforms:** Invest in eSignature tools that are secure, compliant with legal standards, and easy to integrate directly into your loan origination and servicing systems to streamline the lending process from application to closing.
- **Automated Compliance Workflows:** Develop automated workflows that handle compliance, reducing manual intervention and errors.

4

STRATEGY 4

Get Your Arms Around Compliance

The regulatory environment for lenders has grown increasingly complex, especially as lawmakers extend traditionally consumer-focused protections to include sophisticated commercial borrowers. As regulations change frequently and vary across jurisdictions, it has become challenging for lenders to keep up with new and evolving compliance requirements. For lenders operating in multiple regions, they face significant risks associated with non-compliance—fines, penalties, and reputational damage. In fact, compliance remains one of the largest cost burdens for financial institutions. **Recent estimates** suggest that the cost of compliance for banks averages \$270 billion annually, making it critical for institutions to invest in solutions that automate and streamline these processes. In this context, allocating dollars toward compliance solutions that can adapt to changing regulations has become a critical strategy for mitigating these risks.

\$270 billion

average amount that banks spend on compliance annually

The Complex and Changing Regulatory Landscape

In recent years, the regulatory framework for lenders has undergone significant changes. Traditionally, many protections and compliance requirements were aimed at consumer lending, where the borrower was presumed to have less knowledge and bargaining power. However, this trend has extended into commercial lending with similar protections now afforded to certain business borrowers—particularly small businesses and other entities that may not have access to sophisticated legal and financial resources.

Key Compliance Challenges

Constantly Changing Regulations

Regulations at the state and federal levels end up modified or changed on a relatively frequent basis. This dynamic environment makes it difficult for lenders to stay informed about new rules and their implications. The impact on budget is substantial—OpEx dedicated to compliance has increased by over **60% for retail and corporate banks** in the last few decades.

RegTech

CAN LEAD TO

30-50%

reduction in compliance costs

Real-Time Compliance Monitoring

Implementing real-time compliance monitoring tools can significantly reduce the likelihood of fines. A Deloitte report found that using RegTech (regulatory technology) solutions could **reduce compliance costs by 30 to 50%** by automating routine tasks and improving accuracy.

Expansion of Consumer Protections

Protections that were once exclusive to consumer lending, such as disclosure requirements and fairness standards, now apply to many commercial loans. Lenders must ensure their practices align with these evolving standards.

Varying Jurisdictional Requirements

Different regions have their own specific regulations, and lenders operating across multiple jurisdictions must navigate a patchwork of laws and requirements. Staying compliant in one jurisdiction does not guarantee compliance in another, adding to the complexity.

As these changes take hold, commercial lenders face increased exposure to regulatory scrutiny. Failure to comply with updated regulations can lead to significant penalties, reputational harm, and even legal action. As the regulatory landscape continues to evolve, it becomes critical for lenders to adopt tools and practices that enable them to adapt swiftly.

The Need for Real-Time, Automated Compliance Solutions

Given the complexities of regulatory compliance, manual processes and legacy systems no longer suffice. Keeping up with regulations in real-time across multiple jurisdictions **requires advanced technology** capable of monitoring and responding to changes as they happen. Real-time, automated compliance solutions offer a level of protection that more cumbersome legacy options cannot.

Regulations can change quickly, and a single missed update can lead to non-compliance. Real-time monitoring ensures immediate awareness of any regulatory changes that affect lender operations. By staying ahead of regulatory changes, lenders can mitigate the risk of non-compliance, reduce their exposure to penalties, and build trust with their borrowers and regulators.

Key Benefits of Advanced Solutions

Automated Monitoring

These systems continuously track regulatory updates at both the federal and state levels, providing alerts and recommendations in real-time.

Customizable for Multiple Jurisdictions

Advanced compliance platforms allow for customization and tailoring to meet the specific regulatory requirements of each jurisdiction in which a lender operates, reducing the complexity of managing different sets of rules.

Streamlined Compliance Processes

Automated document generation can reduce the administrative burden on their teams, freeing up resources to focus on business growth and borrower engagement.

Scalability

As a lender grows and **enters new markets**, an advanced compliance solution can easily scale with the business, providing ongoing support without the need for significant additional investment in compliance resources.

Risk Reduction

Automated systems minimize human error, ensuring compliance and reducing the likelihood of oversight and regulatory violations.

Automated compliance solutions offer a clear path forward. By providing real-time monitoring, automating compliance processes and document creation, and reducing the risk of human error, these technologies enable lenders to stay ahead of regulatory changes and operate more efficiently. Implementing these systems serves as both a response to current challenges as well as a proactive strategy to future-proof lending operations and ensure long-term success.

The Need for Real-Time, Automated Compliance Solutions

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Taking Action

Financial institutions should make it a priority now to invest in technologies that streamline and automate compliance, helping you stay on top of changing regulations and reducing your overall risk.

Must haves in this area include:

- **RegTech Solutions:** Adopt regulatory technology (RegTech) solutions that automate compliance checks and document creation and ensure adherence to ever-changing regulations.
- **Automated Document Generation:** Invest in software that automates the generation of compliance documents, reducing the administrative burden on your teams.
- **Cloud-Based Compliance Solutions:** Adopt cloud-based compliance solutions that can scale with your business as you enter new markets. These solutions should offer flexibility and ease of integration with existing systems.



Summary

As the commercial lending landscape continues to evolve, financial institutions must focus on agility, efficiency, and strategic planning to remain competitive. This *Budget Playbook* has provided a framework for commercial lenders to optimize their lending operations and capitalize on emerging opportunities.

Re-engaging in Lending

Traditional financial institutions must adapt to compete with alternative lenders, who have grown significantly due to fewer regulatory constraints and faster closing times. By investing in technology and emphasizing relationship-based banking, banks and credit unions can reclaim lost market share while offering lower interest rates and broader financial services.

Technology Integration

In today's regulatory environment, financial institutions must balance growth with compliance. Allocating a portion of the budget to adopt automation solutions ensures risk is minimized while compliance costs are kept in check. Financial institutions can simultaneously mitigate risks and unlock new revenue streams by deploying compliance technology and automating manual processes.

Customer-Centric Approaches

Leveraging data analytics and automation not only improves compliance but also enhances customer retention. By understanding borrower behavior and preferences, financial institutions can tailor their products and services to foster long-term relationships and maximize profitability. While often “unseen” by the customer, the pain point amelioration for customers provided by automation has a net positive effect on both CX and customer satisfaction.

In conclusion, by aligning budgetary strategies with technology investments and regulatory efficiencies, commercial lenders can create a sustainable, scalable, and compliant lending operation. As the market continues to shift, institutions that take a proactive approach in these areas will be well-positioned to thrive.

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