

Case Study – Banking Loan Applications

Company: Commercial Banking

Industry: Financial Services / Banking

Problem: How to evaluate loan applications in the context of the customer's industry.

Solution: Applicant submits scenario forecasts based on requirements set by bank.

Time taken: 1.5 hours

Result: Both bank and client better understand clients industry and environment.

To evaluate risks and apply commensurate interest rates and covenants, bank needs to understand and know that client also understands the drivers of it's business. The result of this exercise can be a method underpinned by an online software platform that enables bank to better evaluate loan applications with more reliability, perspective and speed.

Despite the traditional and robust evaluation of financial metrics and credit rating methods, banks are still exposed for two reasons: first is that the business forecasts of clients that apply for loans are realistic, truthful and substantiated, and second that bank has evidence that client's actually also full understand what drives the success and risks in their business.

Banking client appointed a team of two managers, an economist and a BlueWave accredited forecasting consultant to pilot a methodology that will illustrate the efficacy of scenario forecasting on the BlueWave Forecasting platform as a way of processing business loan applications with increased awareness of the industry micro-environment drivers and predicted scenarios that will affect the client business and the ability to repay the loan. Two industries were selected namely steel pipe manufacturer and a housing construction industry applicant. The team selected the drivers that identified with the success for each loan applicant at a correlation of at least 0.8 and incorporated the top 6 of these drivers weighted into scenarios. They were then mapped to the clients' financial statements to reflect seasonality, one was monthly and the other in quarters.

Forecasts were then run to show high, expected and low scenario environments. The pilot established the efficacy of the method and the BlueWave forecasting platform to fast-track the loan application process because of improved understanding of the client micro-industry environments. Metrics could be calculated for similar companies in these two industries and entered into a benchmark database. These forecast in addition to the credit scoring analysis formed the basis of a robust loan evaluation process that could speed the process and reliability to make a compelling business case for the implementation of this approach.

The bank is engaging with industry associations to establish rolling scenarios of their industry that members can use as a baseline for their business forecasts and loan applications.