Effective Lender Allocation

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The benefits of such business are clear. One might therefore assume that all significant consumer lending institutions have rational and sound methodologies for ensuring enough staffing resources are present at each delivery point - that a strategy and plan are in place to "scoop up" every loan of acceptable quality that may be available. Logically, resources that are not being used effectively in one location will be re-allocated to another location where revenue generation will be maximized.

In reality, this is hardly ever the case and lenders are mostly distributed without much thought as to how their effectiveness can be maximised.

The most common practice is to allocate lenders on existing (not potential) portfolio size – i.e. on numbers of accounts and/or loan balances outstanding. Another popular approach makes it the responsibility of a district executive to intuitively allocate a total (district) complement among branches and then to each major function within each branch. Here, the resulting allocation is often driven by business pressures within the district – the "squeaky wheel" syndrome.

The acquisition of a consumer loan is arguably the most profitable activity in a branch, and this document discusses strategies for allocating lenders in a way that maximizes profitability.

The chart below illustrates that a $10,000.00 loan over 48 months with an interest rate spread of 10% to cost of funds contributes $2,257.00 in net interest earnings over its life – $913.00 in the first year alone.

Interest Spread to Cost of Funds	Net Interest Earnings over 48 month life.	First Year Net Interest Earnings
5%	1,096	452
6%	1,322	544
7%	1,551	636
8%	1,783	728
9%	2,018	821
10%	2,257	913
11%	2,498	1,007

It should be quickly apparent that such approaches ignore key factors impacting lending workload. For one, branch portfolios often have significantly different characteristics – e.g. average new loan size, approval and booking rates, pay down/run off rates, delinquency experience, etc.

Also, importantly, the growth potential of each branch's marketplace could vary greatly. Unsophisticated approaches will inevitably result in staffing imbalances and the under optimization of market potential.

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Let us look at the Loan Screening component of the process, under the following scenario:

	Average New Loan	Approval Rate	Booking Rate
Branch A	$10,000	75%	90%
Branch B	$12,500	80%	92%

To book $100,000 in new business, Branch A would need enough resources to interview 14.8 applicants, whereas Branch B would only need resources to interview 10.9 applicants, or 26% less resources.

There are of course other issues that may be considered, but the Loan Screening component alone makes it clear that there are benefits to be realized from analysis of lending activities across the organization.

An effective Staffing Model has to be multi-dimensional. Firstly, it must be granular and recognize the unique work-loading impacts of the discrete components of the total process. These include:

- Proactive Marketing.
- Loan Screening (Interviewing & Decisioning).
- Loan Booking
- Portfolio Maintenance/Servicing
- Collections (where a branch responsibility).

Additionally, the model must adequately reflect that the conditions impacting the workload involved in each of the process components above will vary significantly from branch to branch.

The major variables are:

- Loan Types offered, and the impact of processing times of each type.
- % of new applicants that have to be proactively marketed (as opposed to applicants who walk into the branch unsolicited)
- Average new loan size
- Approval Rate
- Booking Rate
- Incidence of customer servicing requests (balances, etc.)
- Portfolio pay-down or run-off rate
- Delinquency experience, and the amount of collection effort required.

Lastly and most importantly, the Model must be based on empirical and defensible data, and must produce "results" that Lenders and Managers can accept and buy into as representing their particular set of circumstances.

An example: a recent Staffing Model developed on behalf of a client Bank identified that:

1) loan growth targets needed major adjustments – many branch targets were reduced and many increased, with a net overall increase in loan growth

2) many branches were overstaffed and some understaffed

3) after a substantial redistribution, it was possible to reduce complement by some 25% (counting only "whole" body savings), while attaining higher growth

In summary, a well-developed Staffing Model can and should go beyond simply answering static questions about how many lenders are needed in a particular branch. Properly constructed and utilized, it can provide a new paradigm or framework for managing the lending business in a far more discrete and proactive way than at present. The end result will be increased profit arising from the largest possible

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