Centralized vs. Decentralized Loan Administration:
Which Model Maximizes Benefits?

The Value of Centralized Loan Administration in Construction Lending

Securing the riskiest part of your portfolio is crucial, especially when economic conditions are uncertain. Choosing between centralized and decentralized loan management is something that each lending institution will need to do as they grow and scale. When evaluating lending practices, lending institutions may consider a centralized model for loan administration as this can lead to greater efficiency, more bank-level controls, better risk management, and, ultimately, a better customer experience.

When shifting to a centralized loan administration, the burden of responsibility for tedious and time-consuming administrative duties can be lifted off of Relationship Managers (RMs) and Branch Administrators, allowing them to focus on building existing customer relationships and forming new ones. Some of the benefits of centralizing loan administration include:

Improving Customer Relationships

RMs can spend less time on administrative work and more time developing new business, as well as strengthening existing relationships.

Streamlining Communication

Clients have a central point of contact for all communication regarding their loan. As it is the Administrator's sole responsibility, they will have more bandwidth to communicate with clients about their loans compared to RM who may be originating new deals.

Maximizing Core Skills & Competencies

By designating a central administrator for all loan management and administration, the administrator will garner expertise in those duties in a shorter amount of time. That way, they can focus all of their efforts on those duties compared to an RM. This will decrease employee errors and oversights during the draw process.

Reducing Risk

Separation of duties creates room for unbiased risk management. The RM's main priority is the customer—while this is a good thing generally, the customer relationship could cloud the RM judgment when it comes to gathering the appropriate documentation, inspecting the property, or statements from the borrower at their "word" and can result in more room for risk.

Increasing Efficiency

Clients send draw request packages to the draw reviewer directly which can limit the amount of handoffs required in the draw process while increasing flexibility.

Simplifying the Approval Process

Approval processes can also be streamlined as the draw reviewer can be in the same office as the executive approver as opposed to approval via email or phone call.

Improving Technology Adoption

With a central administrative team, new processes and technology training is simplified. A single Senior Administrator can relay process changes to the team and help train team members on new technologies in one location.

With a decentralized process, administration of the loan is weighted more at the Branch level. Often, administrative responsibility for each loan is given to the Relationship Managers who originated the loan themselves. In this case, the RM will be responsible for gathering all pre-construction documentation, receiving draw requests from General Contractors and subsequently the Borrower's authorization of the draw request, change order or reallocation requests, gathering invoices and lien waivers, payment applications and if they are properly managing the loan, checking those invoices against budget line items being requested to ensure funds are being used appropriately.

Oftentimes, the RM or Branch Administrator will also be responsible for requesting inspections or possibly even going onsite to inspect the property themselves, checking construction progress against the draw request package and total funding to ensure alignment, requesting final appraisal, requesting title updates and date down endorsements, tracking the budget and draw schedule and keeping the borrower in the loop on construction and funding progress through reports and direct communication via phone call or email. In a decentralized loan management system, training and implementation may require multiple meetings where team members from different branches may even need to transport to the main office or the trainer would need to transport to satellite offices. Even after training and implementation has been completed, there is risk that RMs or Branch Administrators may not follow process correctly as they don't have the oversight of a Senior member of the team to help control it.

With a cloud-based system to centralize all key loan information, lending teams are empowered to administer construction loans with confidence, all while reducing risk. The value of centralizing processes is clear—improve the way lending teams operate to enable them to focus on what matters most: customer relationships.

About the Author

Chris Radebaugh is a Solutions Engineer at Built Technologies. Prior to joining the Built team, Chris worked as a portfolio manager at one of the premier boutique lending institutions in Nashville as well as a risk analyst in the technology industry. His experience in the lending space enables him to partner closely with Built's lending partners and prospects in order to demonstrate the value of a digital solution for deal and draw management. Chris holds his BBA in Finance from Middle Tennessee State University.