Financial Loan Corporation

Overview

Financial Loan Corporation is a personal finance company established in 1985. Most customers apply for loans to restructure household finances, pay off credit cards, or to purchase an automobile. Financial Loan Corporation specializes in credit for customers who cannot secure loans at banks, credit unions, or other financial institutions due to poor credit or job history. Therefore, the risk to the lender is greater, the loan interest rates are higher, and closer attention is paid to customer service and loan payment billing and receiving.

Financial Loan Corporation uses manual record keeping for loan processing. It would like to invest in information technology to reduce the time for loan approval. The new system also should include billing and payment processing because the old billing system is no longer supported by the vendor.

Workflow

Figure 1 depicts the loan process from application to loan approval and then check disbursement to billing. When a customer wants to apply for a loan, he/she meets with a loan officer and completes a formal written application. After completion of the application, it is sent to a loan processor who holds it until all required supporting documentation has been received. Supporting documents may include W2 forms, tax returns, credit reports, etc. Once the paperwork is complete, the loan processor forwards the application to a loan underwriter to approve or deny it. If approved, a loan check is disbursed and a monthly account billing cycle begins. As payments are received, new loan balances are calculated for the next billing cycle.
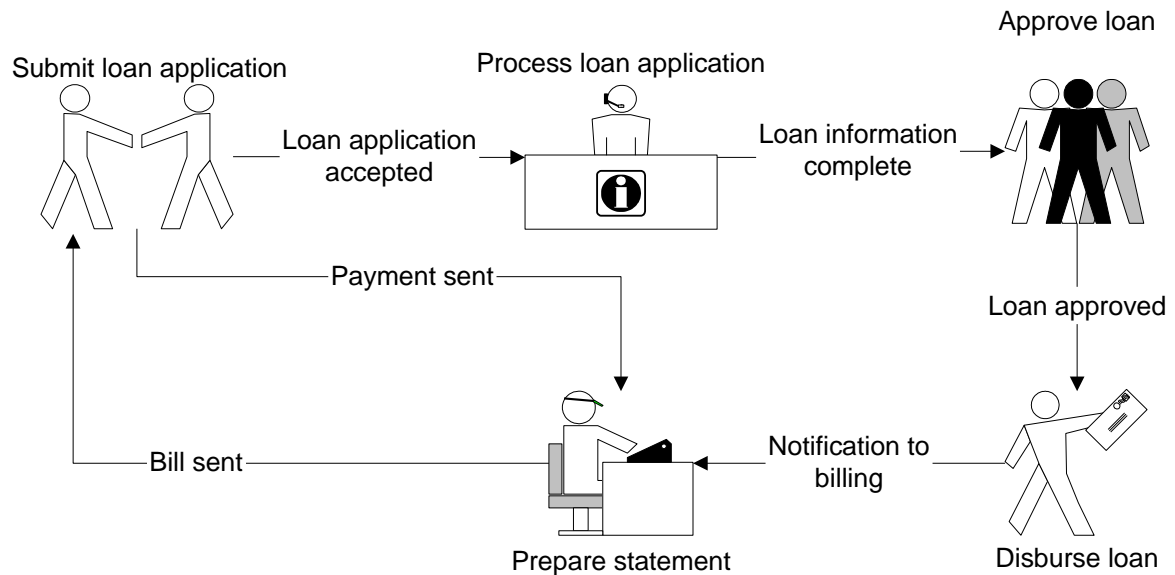
Figure 1: Workflow for a Typical Loan Processing Job

To reduce costs, the Financial Loan Corporation wants to augment the workflow depicted in Figure 1 according to the following points:

- Periodically, approved loans are batch processed for check disbursement. Although the new system will list the checks dispersed, checks are created by an accounting program.

- In the current system, customer payments are batched and sent to an outside service provider. After payment processing is completed, the service provider sends a payment file for account reconciliation.

- In the new system, Financial Loan Corporation would like to support Web-based payments as well as traditional payment processing by mail. Web-based payments will be input directly into the new database without the intermediate service provider.

- Billing is handled for principal and interest only. Because the Financial Loan Company does not make home equity loans, tax and escrow accounting is not necessary.

- Payments are applied to the oldest unpaid billing records first. Interest is applied before principal.

- Late charges are not assessed to customers, although the account status is flagged for

  delinquency.

- All payments received will have at least one corresponding outstanding billing record in the

  billing table.

Supporting Documents

To support loan processing, the Financial Loan Corporation uses a number of supporting

documents. Figure 2 depicts a sample loan application. In the new system, the information on

this application should be entered onto a form by a loan processor. In addition to the applicant's

personal information, the form should have the loan information such as the unique loan number,

the loan amount requested, the interest rate for that loan type, the duration of the loan, and finally,

the estimated monthly payment based on the loan amount requested. After the document is

completed, the loan status should be set to pending and sent to a loan underwriter.

New Loan Application			
Loan Officer: Jones		Customer SSN:	170-88-9523
Last Name: Williams		First Name: Sally	
Address: 4456 E. Oxford Rd.	City: Seattle	State: WA	Zip: 98462
Phone: (425) 776-9847			
Primary Income:	$55,600	Secondary Income:	$5,500
Loan Information			
Loan No: 114536	Appl. Date: 06/14/2003	Loan Amount:	$36,500
Loan Term: 5 yr.	Interest Rate: 10%	Mo. Payment:	$525.00
Documents Received			
X W2 Form	X Tax Return	___Credit Report	___Bank Info.
Loan Status: Pending	Assign To Underwriter (Name): Parsons		

Figure 2: Sample Loan Application

Financial Loan Corporation would like to standardize the information about loan officers,

underwriters, and loan types. Currently, the company maintains lists of loan officers and

underwriters in a mailing list. The lists of loan officers and underwriters should be maintained in

the loan processing database. For loan types, the company would like to maintain a unique loan type identifier, description, maximum term of loans made, and restrictions on the loan type.

At least once a day, each loan underwriter reviews the pending loans assigned to him/her. A report of pending loans is sent to each underwriter. To facilitate loan review, a form containing the relevant loan application information should be available to the loan underwriter to approve or deny pending loans. Figure 3 shows an example Pending Loan form. When a loan underwriter opens the form, the system should support search of the loan number by customer name. After selecting the loan number, the loan application is displayed. To approve or deny a loan application, the loan underwriter selects the appropriate loan status and assigns a risk factor to the application for subsequent tracking purposes. If the loan underwriter wants to perform additional research, the loan remains in pending status.

Pending Loan Form

Loan Review Date: 06/15/2003   Underwriter Name: Parsons

Customer Information

Loan Officer: Jones

Customer SSN: 170-88-9523

Last Name: Williams   First Name: Sally

Address: 4456 E. Oxford Rd.   City: Seattle   State: WA

Phone: (425) 776-9847   Zip: 98452

Primary Income: $55,600   Secondary Income: $5,500

Loan Information

Loan No: 114536   Appl. Date: 06/14/2003   Loan Amount: $36,500

Loan Term: 5yr.   Interest Rate: 10%   Mo. Payment: $525.00

Documents Received

X W2 Form   X Tax Return   X Credit Report   X Bank Info.

Loan Status: __Pending X Approved   __ Denied

Risk Factor: X Low   __Moderate   __High

Figure 3: Sample Pending Loans Form

Periodically, approved loans are batched for disbursement. A disbursement check register should be generated to list the checks written to disburse funds for loans once they have

been approved. This report may be generated daily or weekly. A sample disbursement report is

shown in Figure 4. Note that actual checks are created by the accounting software.

Loan Proceeds Disbursement Report			
Disbursement Date: 6/20/2003			
Check No	**Check Amount**	**Customer SSN**	**Name/Address**
1	$12,000.00	170-66-7955	Rider, Peter
			1005 E. Chestnut St.
			Philadelphia, PA
2	$25,000.00	578-63-9874	James Stevens
			4460 W. Garden
			Seattle, WA 19054

Figure 4: Sample Disbursement Report

Once a month, billing statements are produced and mailed to customers. The customer

and payment information for each statement should be calculated from the loan information

already in the database. Figure 5 shows an example billing statement with a unique statement

number. In the current system, one statement per loan is sent to each customer. Financial Loan

Corporation would like to reduce the number of statements sent by using consolidated statements

containing the details of all outstanding loans for a customer. Currently, about 15% of customers

have more than one outstanding loan. Financial Loan Corporation believes that the number of

customers with more than one outstanding loan will increase in the future.

Monthly Statement	
Statement No: 1299999 Customer Name: John Doe	
Address: 654 Spruce St. Cincinnati, OH 45246	
Statement Date:	Payment Due Date:
06/15/2003	06/30/2003
Account Information	
Loan No	142538
Interest Rate:	10%
Principal Balance:	$20,114
Date of Last Payment:	5/28/2003
Remaining Payments:	18
Monthly Payment/Amount Due: $248.66	

Figure 5: Example Monthly Billing Statement Report

When customer loan payments are received, they are batch input into a system outside the scope of this database, presumably by a third party provider. A payment information file is then forwarded back to the loan company on a regular basis from the third party provider. The billing department then reconciles the payments received with the amounts due. Delinquent accounts are sent to an outside collections company.

Occasionally the loan company is notified that customer information has changed, so the database must be updated to reflect these changes. A possible way to achieve this could be to create a customer update form that links the updated customer information to their account in the database. A sample form is shown in Figure 6, which could display a single screen of information by choosing a customer's SSN from a drop down list.

Customer Update			
Customer SSN:	170-88-9523		
Last Name:	Williams	First Name: Sally	
Address:	4456 E. Oxford Rd.		
City:	Seattle	State: WA	Zip: 98462
Phone:	(425) 776-9847		
Date Updated:	06/02/2003		

Figure 6: Sample Customer Update form

Customers may call the Financial Loan Corporation with questions about their account. A customer service representative should be able to access a customer's account information in an efficient manner. Figure 7 displays a sample Customer Account Inquiry form. The upper part displays the customer and loan information. The bottom part displays the billing and payment activity on the account.

Customer Account Inquiry

Customer SSN: 170-88-9523   Loan No 114536

Customer Information

Last Name:	Williams	First Name: Sally	
Address:	4456 E. Oxford Rd.		
City:	Seattle	State: WA	Zip: 98452
Phone:	(425) 776-9847		
Primary Income:	$55,600	Secondary Income:	$5,500

Loan Summary

Loan Term: 5 yr.   Loan Amount: $36,500

Interest Rate: 10%   Monthly Payment: $525.00

Principal Balance: $35,975   Remaining Payments: 71

Account Status: *current*   Date of Last Payment: 06/30/2003

Transaction History

StmtNo	Date Due	Amount Billed	Date Received	Amount Received	Interest Paid	Principal Applied
100222	5/31/2003	$525.00	5/28/2003	$525.00	$410.40	$114.60
104452	6/30/2003	$525.00				

Figure 7: Sample Customer Account Inquiry Form

Glossary of Form and Report Fields

New Loan Applications Form

- *Loan Officer:* name of loan officer
- *Customer SSN.:* social security number of applicant
- *Last Name:* last name of applicant
- *First Name:* first name of applicant
- *Address, City, State, Zip:* address where billing statement will be sent
- *Phone:* phone number of applicant
- *Primary Income:* amount of applicant's primary source of income
- *Secondary Income:* amount of applicant's secondary source of income
- *Loan No.*: unique system-generated loan number
- *App Date:* date that the loan application was made
- *Loan Amount:* loan amount being applied for
- *Loan Term:* length of time of the loan
- *Interest Rate:* loan interest rate
- *Monthly Payment:* monthly repayment amount to the loan company
- *W2 Rec'd?*: check box if this document has been received
- *Tax Rtrn Rec'd?*: check box if this document has been received
- *Credit Rpt Rec'd?*: check box if this document has been received
- *Bank Info.*: check box if bank statements and other investment documentation received
- *Status:* Approved, Pending, Denied
- *Assign to Loan Underwriter:* Name and employee identifier number of loan underwriter

Pending Loans Form

- *Loan Review Date:* date the underwriter reviewed and assigned the loan status
- *Underwriter Name:* Name and employee identifier number of loan underwriter
- *Loan No.*: unique system-generated loan number
- *Loan Officer:* name of loan officer
- *Customer SSN.:* social security number of applicant
- *Last Name:* last name of applicant
- *First Name:* first name of applicant

- *Address, City, State, Zip:* address where billing statement will be sent

- *Phone:* phone number of applicant

- *Primary Income:* amount of applicant's primary source of income

- *Secondary Income:* amount of applicant's secondary source of income

- *Appl. Date:* date the application was taken by the loan officer

- *Loan Amount:* loan amount applied for

- *Loan Term:* length of time of the loan

- *Interest Rate:* loan interest rate

- *Monthly Payment:* number derived from the loan amount, interest rate and loan term

- *W2 Rec'd?*: check box if this document has been received

- *Tax Rtrn Rec'd?*: check box if this document has been received

- *Credit Rpt Rec'd?*: check box if this document has been received

- *Bank Info.*: check box if bank statements and other investment documentation received

- *Loan Status:* Approved, Pending, or Denied

- *Risk Factor:* High, Moderate, or Low

Loan Proceeds Disbursement Report

- *Check Number:* check number of disbursement check issued

- *Check Amount:* amount of disbursement check issued

- *Customer SSN.:* social security number of customer

- *Name/Address:* billing name and address

Monthly Billing Statement

- *Statement No:* unique number identifying a statement

- *Customer Name:* customer name

- *Address:* billing address

- *Statement Date:* date this statement was mailed

- *Payment Due Date:* date the monthly payment is due to the loan company

- *Loan No.:* unique system-generated loan number

- *Interest Rate:* loan interest rate

- *Principal Balance:* loan amount remaining after deducting most recent principal payment

- *Date of Last Payment:* date last loan repayment was made to the loan company

- *Remaining Payments:* number of payments remaining to the loan company

- *Monthly Payment/Amount Due:* amount owed to the loan company this month

Customer Update Form

- *Customer SSN.:* social security number of applicant

- *Date:* date of this update

- *Last Name:* last name of applicant

- *First Name:* first name of applicant

- *Address, City, State, Zip:* address where billing statement will be sent

- *Phone:* phone number of applicant

- *Date Updated:* date of this loan/account information update

Customer Account Inquiry form

- *Customer SSN.:* social security number of applicant

- *Loan No.:* unique system-generated loan number

- *Last Name:* last name of applicant

- *First Name:* first name of applicant

- *Address, City, State, Zip:* address where billing statement will be sent

- *Phone:* phone number of applicant

- *Primary Income:* amount of an applicant's primary source of income

- *Secondary Income:* amount of an applicant's secondary source of income

- *Loan Term:* length of time of the loan

- *Loan Amount:* amount borrowed for which loan payments are based

- *Interest Rate:* annual interest rate

- *Monthly Payment:* amount owed to the loan company this month

- *Principal Balance:* loan amount remaining after deducting most recent principal payment

- *Remaining Payments:* number of payments remaining to the loan company

- *Account Status:* Current or Delinquent

- *StmtNo:* unique billing statement number

- *Date Due*: date that the payment must be received to avoid a late penalty

- *Amount Billed*: payment amount to remit

- *Date Received*: date that payment was received; null if no payment has been received

- *Amount Received*: amount sent; null if no payment has been received

- *Interest Paid*: amount of payment for interest; null if no payment has been received

- *Principal Applied*: amount of payment for principal; null if no payment has been received