Standing Still at the Speed of Light With All Our Technology, Why Does It Take as Long to Close a Loan as It Did Forty Years Ago?

I was talking with a customer recently, and he asked me how we managed to transact business forty years ago. After all, there was no email, no fax, no voice mail, no Federal Express, no conference calling, and no word processing. The only Cloud I knew was the one that seemed to hover perpetually over the gloomy city of Bridgeport, Connecticut, where I worked at my first banking job.

That set me to thinking. Perhaps my imagination is playing tricks on me, but I'm virtually certain it didn't take longer to close deals back in the Dark Ages, and in fact, my recollection is that they were often consummated more quickly. I know we didn't have deals that lingered in the closing process as long as a couple of our currently pending transactions. Documents sit idly waiting to be reviewed, emails go unanswered, and everyone's patience is severely tested. We're a lean, limber finance company, and pride ourselves in moving quickly, but closing a loan involves multiple parties. It takes two to tango, and closing a loan is more like doing the Hokey Pokey, where everyone, including the borrower, the lender, their attorneys, servicing companies, title companies, lockbox banks, and others have to dance in step.

All it takes is one person falling out of line to stall the entire process.

A few years ago, we closed a loan with a foreign developer. It seemed as though it took them forever to return the loan documents, and I calculated that if they had signed the documents the day they were received and walked them back to Connecticut at a pace of three miles per hour for eight hours a day, the package would have arrived sooner. And it's a long walk from Mexico. In this miraculous modern age, why are we exchanging documents at a pace that was achievable in the 12th century?

Why hasn't the closing process accelerated as dramatically as the changes in technology? Why aren't we closing loans in a week? One reason is that while the closing process utilizes automation, it is not automated; if human beings don't hit keys, pull switches, respond to requests, or create documents, the process comes to a grinding halt. We've all had the experience of sending a document by email, having it arrive instantaneously and then sit in an inbox for 60 days. What if it was 1978 and the document was sent in an envelope and arrived three days later. Would it

sit unopened for 57 days? That would have been highly unlikely, because we weren't inundated with physical mail, which meant that letters usually received immediate attention. The volume of email most of us receive can be overwhelming. Between spam folders, wastebaskets, and just plain not paying attention, emails get buried and ignored.

Another reason for delay is that while technology makes it much easier to communicate, it also makes it much easier to avoid communicating. Caller ID, voice mail, and simply ignoring emails allow people to put off difficult tasks or potential confrontations. Despite all the changes in technology, human nature remains the same. We all want to avoid unpleasantness, and today it's much easier to do that. When I started working, most important communications took place either in person or by telephone. It requires an extremely egregious level of rudeness to ignore someone sitting across the table from you, and the unsophisticated rotary dial phone made it difficult to ignore callers. When the phone rang you had to answer it and take your chances as to who might be on the other end. The only alternative was to have a secretary screen your calls, and that was only for important people, not the rest of us great unwashed.

Technology, in the form of conference calling, emailing, and other expanded communication formats, has also made it much easier to include multiple parties in the process. When closing loans, "the more the merrier" is generally not the case. Whenever you see 20 people on an email chain, you know things won't move quickly.

In the old days, nearly all loan closings were done in person, and it required a fair amount of traveling to conduct

business on a national scale. But while the old-fashioned face-to-face closing was more time-consuming and seemingly less efficient, it actually facilitated efficiency. Setting a closing date forced everyone to focus on getting things done by the deadline. When someone shows up in your conference room, they're harder to avoid than a message sitting in your inbox.

A second innovation that has changed the closing process is the evolution from typing to what we first called "word processing." Computerized word processing enabled the production of much longer documents, and what were 25 or 30-page loan agreements became 80 pages, because it was so easy to create and revise them. In the old days, the phrase "cut and paste" actually involved scissors and glue, not a couple of icons, and it was a great imposition to make extensive changes. We all remember the secretary who, at the end of an arduous closing, looked as though they'd been dipped in a bucket of lime–their arms and face covered with "white-out" correcting fluid.

When document changes are difficult, one generally doesn't make or request them unless they're critical. But when documents can be revised easily, there's a tendency to get wordy and picky. That takes time, because while it might be relatively easy to make revisions, they then must be circulated for review, often to several parties.

The final impediment to rapid closings is something some of you may remember from business school—critical path analysis. There are several components to any process and the process can move only as quickly as its slowest part. While one facet may be highly automated and speedy, the entire process won't be done until the slowest component is complete. For instance, two parties may exchange and execute documents with lightning-like speed, but nothing can happen without governmental approvals that move at government-like speed.

We thought technology was going to do for loan closing what airplanes did for travel, but that hasn't happened. Technology can only provide the tools; we need to figure out how to use them

and using technology to achieve quicker closings means doing a few things differently.

The first job is to identify the critical path and the one component that will probably take the longest amount of time. Either start it first or see if you can eliminate it altogether. To return to our Mexican example, we learned that notarization, which is a simple procedure in the U.S., is expensive and involved in Mexico, although it generally includes lots of pretty ribbons and seals. Getting a document notarized brought things to a grinding halt. We asked our attorney if our documents really had to be notarized in order to be valid. They didn't, so we eliminated the requirement and sped up the process.

A second way to speed up closings requires some fortitude. Don't avoid difficult communications. When the phone rings and the caller ID displays the name of someone you're unprepared to talk with, or who may initiate a difficult conversation, grit your teeth and pick up the receiver, even if it's 5 o'clock on a Friday afternoon. Don't let it roll to voice mail and then return the call when you think they won't be there. We all know the intention of a voice mail left on an office phone at 7:30 p.m.

Set deadlines and stick to them. Even though you don't have a physical closing, find a reason to pick a date by which everything will be done. Perhaps one of the principals or lawyers is going on vacation and things must be done before they leave. Maybe a contract expires on a certain date. Processes without deadlines tend to drag on forever, no matter what time-saving technology is available.

Don't create, expand, or revise documents just because it's easy to do so. Although black-lining has sped up the review process, multiple people reviewing long documents can be a never-ending process, particularly if every reviewer wants to make a few changes of their own. And resist the urge to include too many people in the process, particularly those who have no vested interest in moving things along.

The guiding principle behind any effective process is thinking. A disturbing

trend in all aspects of modern life is the almost blind reliance on systems and processes, with the concurrent abandonment of skepticism and independent thought. If someone's computer screen says that the sun is shining, the water that's falling out of the sky onto your head must be your imagination. After all, the system can't possibly be wrong. Use your brain and understand that even well-designed systems sometimes require independent thought. After all, they're designed by fallible humans, and not every situation can be reduced to mathematical formulae. Systems aren't a substitute for thought and shouldn't be allowed to derail a process.

Technology is a great weapon, but since we're not closing loans much quicker than we were 40 years ago, we seem to be losing the battle. We can win the war if we think about what we're doing, take advantage of technology's benefits, and avoid the pitfalls. So pick up that phone, respond to that email, forget that revision, and let's close some deals!

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