Blueprint *for a* Thriving Business Loan Program

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Introduction

Creating a sticky commercial loan program demands a deep understanding of market dynamics and user needs. This blueprint explores key considerations when structuring a new product, such as identifying customer pain points and integrating loan products into existing workflows. We'll also explore the trade-offs between brokerage and balance sheet models and provide insights into revenue-sharing and unit economics.

To help you put it into practice, we'll also dive into strategies to continually refine and innovate for effective origination, underwriting, and portfolio monitoring. By using these tools, your business will be equipped to develop robust loan programs that drive long-term value for your borrowers (and your bottom line) in an increasingly competitive market.

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Justin is a contributing author who has extensive experience in developing commercial lending programs. Most recently, Justin led Flexport Capital, the embedded fintech group at Flexport, a global logistics platform. Here, he developed, sold and funded working capital financing to hundreds of importers and exporters across dozens of countries.

Under his leadership, Flexport Capital grew monthly revenue by over 10x and financed over $1 billion in inventory purchases.

Overview

Product development, distribution, underwriting, servicing, and compliance are all key parts of a successful commercial lending program, and each solution will need to be tailored to the company and its customers' needs.

How do you easily integrate financing seamlessly into user workflows and make strategic decisions around brokerage versus balance sheet models?

By examining trade-offs, risk factors, and revenue-sharing arrangements, this blueprint equips businesses with the knowledge needed to navigate the complexities of commercial lending successfully. Additionally, it explores strategies for origination, underwriting, portfolio monitoring, default management, and compliance, providing a comprehensive framework for building and managing a successful loan program.

Product Market Fit
Identifying need & distribution

What product are you trying to create, and who is it for?

What customer problem is it solving?

What workflows can you embed in your product?

This determines the type of product.

Structuring your product for niche groups

A loan product is not merely about monetizing data or improving customer retention in a new way; it's about understanding and solving specific problems for a distinct client group.

Money is a commodity, and the cheapest place to get it will always be from a bank. So why should your customers get financing from your platform instead?

This question is fundamental to good product strategy, but it also informs the type of loan structures you decide to offer, which has a ripple effect down through the entire product setup.

Product structure can change the types of risks that need to be underwritten and monitored, the way repayments are collected, and the types of regulations financing programs are subject to.

Understanding how you can provide an existing structure to your vertical, or how you can invent a new structure based on the workflows occurring in your product, is where the innovation of embedded financing happens.

Examples of audiences to target:

Small Business Owners

■ Your loan product may focus on easing cash flow issues through invoice financing or short-term working capital loans.

Tech Startups

■ Your focus may shift toward venture debt products that support significant growth initiatives without diluting equity.

Retailers

■ CPG companies selling to retailers often rely on asset-based loans and factoring to finance retailer receivables.

eCommerce

■ Brands selling via eCommerce platforms use merchant cash advances to finance marketing spend.

Logistics

■ Both logistics and supply chain companies typically need both accounts payable and accounts receivable financing. This depends on the nature of the payment terms with their vendors and customers.

The second pivotal aspect of product development is integrating the loan product seamlessly into existing user workflows.

Embedding financing solutions where they add the most value not only enhances the user experience but also speeds up product adoption.

Take, for example, a B2B e-commerce platform. Here, offering working capital at the point of purchase can solve a significant pain point for small business purchasers who often struggle with liquidity.

Similarly, in project management software used by contractors, embedding access to equipment financing can be a game-changer. It allows users to apply for financing right at the point of planning their project budgets, streamlining their financial planning process with their project timelines.

These examples underscore the importance of embedding financial services in a way that feels like a natural extension of the existing product, ensuring a smooth and intuitive user journey. We'll discuss this natural integration in more detail in section 3.

Construction management software example ↓

Label				
Job #	Invoice #	Date	Job Type	Amount
			Invoice Total	
			Tax	

Apply for Equipment Financing →

Hiring the right team

Lastly, you have to think about your team members and their backgrounds.

■ *Will you have to hire for this new product, or do you have people internally who are well-suited to work on it?*

■ *Does anyone on your team have a lending background?*

■ *If so, are they open to working on this new product?*

If not, you should consider hiring or contracting to get things off the ground.

Debt providers are underwriting the team as much as the product, financials, unit economics, and credit policies.

Critical job functions:

- ☑ Credit & Risk
- ☑ Legal
- ☑ Operations
- ☑ Engineering & Product
- ☑ Customer Success

Section 2

Due Diligence

*Evaluating tech
& third-party vendors*

What do you want to in-source vs. outsource?

*Will your loan ledger be flexible to support
iterative approaches to product development?*

Launching a successful loan program hinges on the strategic choices made around technology vendors. For companies with limited resources, this decision-making process becomes even more impactful. Typically, a smaller company will lean towards in-sourcing development efforts that foster customer traction, competitive advantages, and differentiation. Meanwhile, more commoditized aspects of development, where efficiency or connectivity are the primary objectives, are often outsourced.

In-source vs. Outsource

The decision of what to develop internally versus what to use external vendors ties back to your core strategy, centering on areas where competitive advantages can be developed quickly. Here are some insights into strategic in-sourcing for competitive advantage. However, certain critical components may not require in-house development, especially if resources are limited.

In-source

Customer Experience Screens
Customizing solutions in-house can significantly enhance client satisfaction and retention, making this area a prime candidate for in-sourcing.

Client Targeting and Sales
Keeping these functions internal ensures better control over client relationships and messaging around your product capabilities, which are instrumental in driving business growth.

Proprietary Risk Models
Developing unique risk assessment models internally offers a distinct competitive edge by enabling tailored risk management.

Outsource

APIs to Third-Party Data Sources
Outsourcing the development of APIs for external data can be more cost-effective and quicker.

Payment Processing
Established vendors offer secure and efficient systems for handling payments.

Loan Ledgers and Reporting
Leveraging external expertise and technology for these aspects can ensure accuracy and compliance without requiring substantial in-house resources.

Selecting the right technology vendor, although a meticulous process, is integral to the success of your loan program.

Critical steps for diligence process:

☐ **Assess Technical Expertise**
Evaluate the vendor's technical capabilities and experience within the financial sector.

☐ **Evaluate Requirements**
Clearly outline your product or workflow needs to ensure the vendor's solution aligns with your business objectives. Understanding integration and support mechanisms is crucial for assessing how well the vendor fits into your existing systems.

☐ **Check Compliance and Security Standards**
Verify that the vendor meets industry compliance standards and employs stringent security measures.

☐ **References and Track Record**
Consider the vendor's history with similar projects and their outcomes.

☐ **Cost-Benefit Analysis**
Analyze the financial implications of the partnership to ensure it aligns with your business goals.

When scoring vendors, focus on key criteria such as flexibility, integration capabilities, security and regulatory compliance, and pricing.

A vendor's ability to offer a flexible solution that can scale and adapt to new loan products, regulatory changes, and evolving market demands is crucial. In order to achieve this flexibility, the vendor's system should integrate smoothly with your existing and future technological landscape, maintain stringent security and compliance standards, and offer a pricing model that supports your growth without becoming cost-prohibitive.

This comprehensive approach to selecting technology vendors and deciding between in-sourcing and outsourcing will position your loan program for success. It allows for a balanced focus on innovation and efficiency, ensuring your technology infrastructure is competitive and compliant.

Brokerage vs. Balance Sheet

Understanding unit economics trade-offs

> *What are the trade-offs between building, buying, or partnering to develop lending products?*

> *What revenue-sharing arrangements are typically seen in loan broker or marketplace models?*

What factors contribute to the net interest margin and gross margin in balance sheet lending?

How can platforms effectively drive down borrowing costs and control losses?

Typically, businesses that develop lending products for their clients want to own the client's discovery and initial engagement with financing products, as indicated in the examples above. However, lenders don't need to build all aspects of the loan program. The decision to build, buy, or partner on each of these elements is based on risk/return trade-offs and the payback period.

Brokerage Model:

The loan broker or marketplace model is the lightest way to experiment with and embed financing.

In this arrangement, a platform integrates with a lender or set of lenders and generates lead volume for external companies. Depending on the extent of data contributed to underwriting, platforms typically generate 5-20% of financing revenue and may cede some control of the servicing experience, especially for defaulted loans.

Balance Sheet Model:

On the opposite end of the spectrum, platforms can fund their initial loans with their balance sheet, and raise a warehouse debt facility (also called a senior loan facility) that is secured by the loan assets generated (and/or balance sheet cash, if the platform is early stage).

In this arrangement, the platform is responsible for the credit underwriting decisions and usually bears the loss risk. Outlays and collections must flow to borrowers. Then, the platform should establish and maintain that flow. The lender can then seize this if losses exceed predetermined levels. [1]

Which model should you choose?

The economics of balance sheet lending can be more favorable.

For example, a portfolio of SMB loans generating a 25% IRR and a 3% loss rate with a warehouse priced at SOFR+600 bps (currently ~11.5%) would generate a net interest margin of 10 percentage points and a gross margin of 40%. In effect, this net interest margin would be the same dollar amount as a 20% brokerage fee on total financing revenue.

So the extent to which the platform can drive down borrowing costs, control losses, and price more efficiently than third-party lenders becomes a key consideration in the decision of how to fund the desired financial product.

[1] As a program matures, the opportunity may arise to sell loans off of the balance sheet ("whole loan sales" or "forward flow agreement"). When a portfolio is highly diversified, loans may also be sold off the balance sheet in a securitization.

Net interest margin

10%

Gross margin

40%

25%
IRR

3%
Loss rate

~11.5%
SOFR+600 bps

20%
Brokerage fee on total financing revenue

Origination

Gaining traction with sales and marketing

What role does product distribution play in determining demand and early traction?

How can you leverage the user experience to improve engagement with loan offerings?

What entry points exist in the user journey, and why are they important for distributing loan products effectively?

How can you use platform data to identify potential borrowers and drive targeted outreach?

How can loan products be seamlessly integrated into existing products to maximize impact?

When is a separate sales team for lending necessary, and how can it be optimized for efficiency?

Distributing your lending product

So you've identified your ideal product structure and economic model, but how will you distribute this product? This is key to determining the true demand in your customer base for your product and getting early traction.

Embrace your entry points

This stage is not just about creating awareness or allowing for in-app discovery of loan products, but also about strategically positioning your loan offerings for maximum impact and engagement. A well-orchestrated user experience can effectively bridge your product with its intended users, and reduce the investment of a separate, dedicated sales team for lending.

The concept of entry points is central to this strategy. Entry points are specific moments within the user journey of your existing products where potential borrowers naturally encounter and engage with loan offerings.

These points should be thoughtfully integrated into the user experience, ensuring that the loan products are presented as a solution precisely when the users are most likely to need them.

For example, in business management software, an entry point could be when a user generates a financial report, where an offer for a working capital loan can be subtly introduced. Similarly, in a procure-to-pay platform, the order approval process can be an effective entry point to financing options.

Placement matters

Entry point ↓

Get financial report →

Do you need working capital?

Using entry points to introduce your product allows you to:

Deeply understand your users' needs and behaviors.

Present your loan products as a natural extension of the services you already offer.

Ensure the buyer of a loan product is already familiar with your offerings.

Save sales team costs and maintain a cohesive brand experience for the user.

Example:

In certain segments such as logistics where the user may not be a financial decision maker, you'll likely need a sales team. In this case, you can use platform data to identify the clients with the highest likelihood of loan approval to drive targeted outreach.

Pre-approvals or pre-qualifications can also help unlock customers. This will help maintain acquisition costs and ensure customers' trust in the platform is improved – not tainted – by their lending experience.

Section 5

Underwriting

Getting quality and quantity right

How can underwriting decisions and acceptance rates be tracked and backtested for refining underwriting and pricing frameworks?

What are the considerations and risks associated with Accounts Payable (AP) and Accounts Receivable (AR) financing?

What factors should be considered in efficiently pricing loans to maintain portfolio profitability?

What are the advantages and challenges of using financial versus non-financial data analysis in underwriting?

How can lenders effectively manage interest rate risk and navigate state regulations regarding interest rate quoting?

How can underwriting processes be continuously refined and improved based on performance feedback and market dynamics?

Underwriting is a balancing act between quantity (expanding your lending portfolio) and quality (minimizing risk).

Achieving this balance requires a sophisticated and multi-faceted approach that encompasses everything from initial screening to ongoing risk assessment.

Over time, your decision-making track record should feed back into your credit scoring so that your underwriting models "learn" from your program's performance (hint: AI/ML potential here!).

Portfolio expansion

vs.
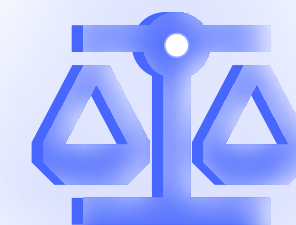
Minimizing risk

Scaling Challenges

A major challenge for scaling a lending program is the concept of adverse selection: the least creditworthy borrowers will be the first ones in your application queue.

Centering your go-to-market on your credit requirements is the first step to ensuring a positive client experience and minimal churn in the sales funnel, attracting loan applicants who are likely to get approved for a competitive offer. You will always have risky applicants:

■ *How do you price this risk effectively?*

■ *Do you have borrower insights based on proprietary data or a unique structure that allows you to lend where others cannot?*

■ *Can you track underwriting decisions and acceptance rates of offer terms, and backtest prior decisions when you decide to change your underwriting or pricing frameworks?*

These questions are critical to consider when writing your credit policy; funders will note your ability to develop a clear framework to diligence and monitor borrowers. This demands that you operate within that predefined "credit box."

Beyond capital markets, this is the secret sauce that your program must have in order to become profitable, full stop.

Key ingredients to a profitable lending program

1 "Knockout Rules"

The underwriting process usually begins with screening based on third-party data. These predefined criteria automatically filter out applications that don't meet the basic requirements to maintain legal compliance. This could include screening for fraud, adhering to Anti-Money Laundering (AML) and Office of Foreign Assets Control (OFAC) regulations, conducting background checks on principal stakeholders, and determining beneficial ownership of a company to ensure your borrower isn't associated with Denied Parties. These initial checks are crucial for maintaining the integrity of your loan portfolio and complying with legal standards.
Pro Tip: Charge application fees if you want to cover your data costs.

2 Accounts Payable (AP) and Accounts Receivable (AR) Considerations

For AP, the focus is on assessing supply chain, vendor quality, and manufacturer risks. This involves evaluating the risk that a large order could overwhelm a supplier's capacity or severely impact their working capital. Concepts such as shipping delays, cost overruns, raw materials stockouts, improper trade compliance, and product recalls typically disrupt AP financing. Banks tend to apply a lower advance rate (also called Loan-to-Value or LTV) on AP and Inventory. If you have platform data that allows you to take risks where others cannot, then you may have found an advantage.

For AR financing, the evaluation revolves around the end buyer's financial risk, historical payment timeliness and dilution, retail markup, and payment. The fine print matters; AR can give any assurances to the borrower.

Is a Purchase Order committed? Is a subscription annual and does it have breakage fees or set cancellation windows? It can also be eroded by dilution due to late delivery fees, inspection fees, or warehouse backlogs. Data sources (proprietary or third party) that provide visibility on the history, scale, and performance of counterparties are key for understanding AP/AR risks.

3 Term Debt & Duration Risk

The length of a loan is a critical factor in underwriting. Longer-term debts carry more risk, as a borrower's business conditions can change significantly over time. This requires a thorough assessment of customer and vendor concentration, sector, geographic, and regulatory risks associated with the borrower's business. In working capital lending, providing uncommitted financing in a junior lien position to committed financing may allow you to wind down facilities quickly., In this case, however, borrowers will also see you as an insurance option and will tend to borrow only when cash flow is challenging. Providing and managing facility expiration and renewal dates can be a good strategy to manage borrower expectations while reducing duration risk.

4 Interest Rate Risk & Pricing

Another important aspect is deciding between fixed and floating rates, which impacts the interest rate risk. Efficiently pricing loans based on this risk is vital for maintaining the profitability of your loan portfolio and your funding costs. Be mindful of how you quote pricing to borrowers (ie, factoring fee for an MCA, term fee for an installment loan, simple vs. compound interest). State-by-state regulations will determine how you are allowed to quote interest rates to customers, what usury limits exist, and whether those apply to your programs.

Boosting Return Value on Your Lending Program

Many SMB lenders will obscure APR pricing by charging a dollar or fixed percentage-based fee when the repayment schedule is dynamic and ensures a robust internal rate of return.

Borrowers may look at financing fees as part of their gross margins, and therefore could be less sensitive to high interest rates if it allows them to scale profitable revenue lines. Conversely, mature borrowers will care more about headline APRs and do the compound interest math to understand their true cost of capital. In these markets, leverage facility fees, upfront fees, and undrawn fees to boost returns while maintaining competitive headline APRs.

Financial vs. Non-Financial Data Analysis

The depth of financial scrutiny required depends on the nature and size of the loan. In some cases, a detailed analysis of the borrower's financial statements may be necessary, focusing on key metrics across leverage, liquidity, profitability, and growth.

However, in high-volume SMB programs, non-financial or consumer-level credit data on company owners might suffice. Constructing an underwriting model can be complex, as it must be tailored to fit different types of businesses.

A model used for consumer ABLs will generally not work for factoring logistics receivables or for software venture debt. For vertical SaaS companies, on the other hand, underwriting will allow your credit team to benchmark key metrics to compare profitability and financial health across borrowers. Some of these key metrics might be Return on Advertising Spend (ROAS) for eCommerce, net revenue take rate in logistics, and recurring revenue retention in software, in addition to standard leverage/growth/profitability ratios.

Determining Risk, Weighting & Scoring

The financing structure is key in determining risk. For AP and inventory financing, there's the risk associated with the vendor's production capabilities and the buyer's financial health. KYC (Know Your Customer) issues arise, particularly in ensuring legal compliance when sending money to vendors.

In AR financing, due diligence on the end buyer or retailer becomes crucial to assess their creditworthiness and reliability, and financial diligence of the borrower is only needed to ensure they are selling at healthy margins and are able to predict and fulfill demand.

The risks of your product will determine how you weigh and score all of these quantitative and qualitative factors. Start simple and add complexity over time.

Type 1 Errors

This is an incorrect rejection of a borrower, typically due to over-indexing on a trivial or generic metric or under-indexing on your proprietary metrics.

Type 2 Errors

This is an incorrect approval of a risky borrower due to a lack of sophistication in scoring, a policy that allows for frequent exceptions, or a lack of consideration for financial metrics versus easy-to-use "alternative" data.

Section 6

Portfolio Monitoring

Building an early warning system

> *What are lien alerts, and why are they important for lenders?*

> *How do loan covenants function within a loan agreement, and what is involved in covenant tracking and testing?*

What are past-due reports, and how do they contribute to risk management?

What constitutes an effective Early Warning System (EWS), and how does it operate?

Why are automated notifications from loan servicing systems crucial?

What are the requirements for implementing a robust EWS?

Loan portfolio monitoring is a critical aspect of financial management for lenders, helping them identify potential risks early and take necessary actions to mitigate losses. Building an effective Early Warning System (EWS) involves several key components, including lien alerts, covenant tracking and testing, past-due reports, and automated notifications from servicing.

Lien alerts

These are notifications that inform a lender when a lien has been placed on an asset that serves as collateral for a loan. This is crucial because it can indicate that the borrower may be facing financial difficulties or that the collateral is at risk of being claimed by another creditor. Monitoring lien alerts allows lenders to proactively manage their risk exposure.
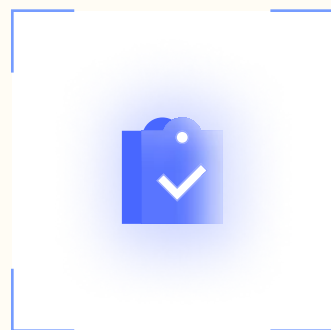
Loan covenants

A crucial aspect of each loan. These are conditions or clauses in loan agreements that require the borrower to meet certain operational or financial thresholds. Covenant tracking involves monitoring the borrower's compliance with these conditions. Covenant testing usually occurs on a periodic basis (e.g., quarterly or annually) and involves assessing financial statements and other relevant information to ensure compliance. This process helps lenders detect financial distress or operational issues early on.
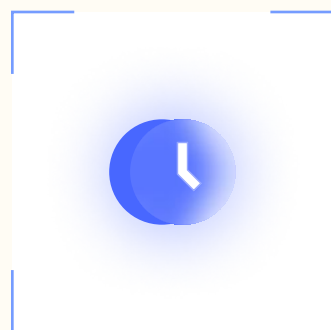
Past due reports

When a loan payment is late, these documents or systems track the status of loan payments and identify them. Monitoring past due payments is essential for managing credit risk, as it helps lenders identify borrowers who may be experiencing financial difficulties. Early identification of delinquent borrowers allows lenders to engage in remedial actions, such as restructuring the loan or initiating recovery processes.
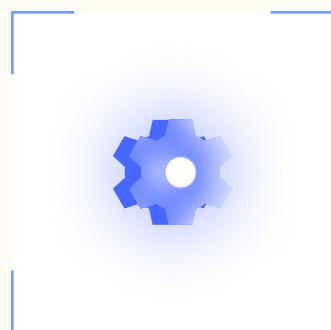
Automated notifications

With everything that goes into servicing loans, it's critical to automate various aspects of the process. Loan servicing systems' automated notifications are alerts sent to lenders about important events or changes in the status of a loan, such as payment receipts, payment failures, changes in borrower contact information, or significant changes in the value of collateral. These notifications can be customized based on the lender's requirements and risk management policies. Automated systems help ensure timely and efficient communication, allowing lenders to respond quickly to potential issues.

An effective EWS integrates these components into a cohesive framework that continuously monitors and analyzes the risk profile of a loan portfolio.

The system should be capable of generating real-time alerts and reports that enable lenders to take proactive measures. It often involves using advanced analytics, machine learning models, and data integration from various sources to predict potential loan defaults or financial distress.

Implementing such a system requires a deep understanding of the lending business, robust IT infrastructure, and a strategic approach to risk management. It also involves ongoing evaluation and adjustment of the system to adapt to changing market conditions and regulatory requirements.

Building an EWS now? Get an expert opinion from Canopy's Fractional GM of Lending

Learn More

Servicing

Honing the day-to-day borrower experience

How can lenders configure product structures to meet diverse borrower needs?

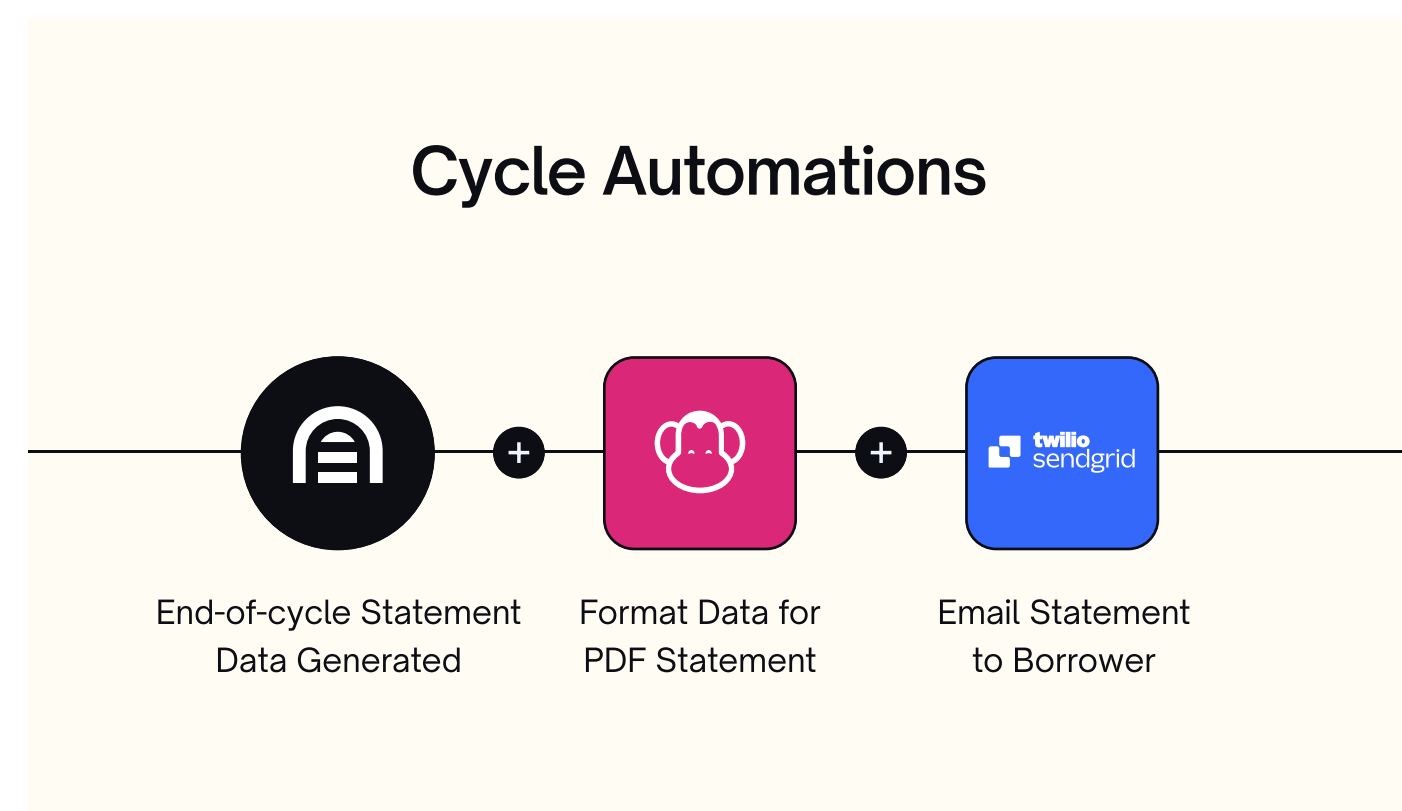*What role does technology play in automating loan servicing tasks?*

How important is personalized communication in enhancing borrower engagement?

What self-service options should lenders offer to borrowers?

Enhancing customer engagement and support

Personalized communication and self-service options are crucial for any product or service in 2024, and lending is no different.
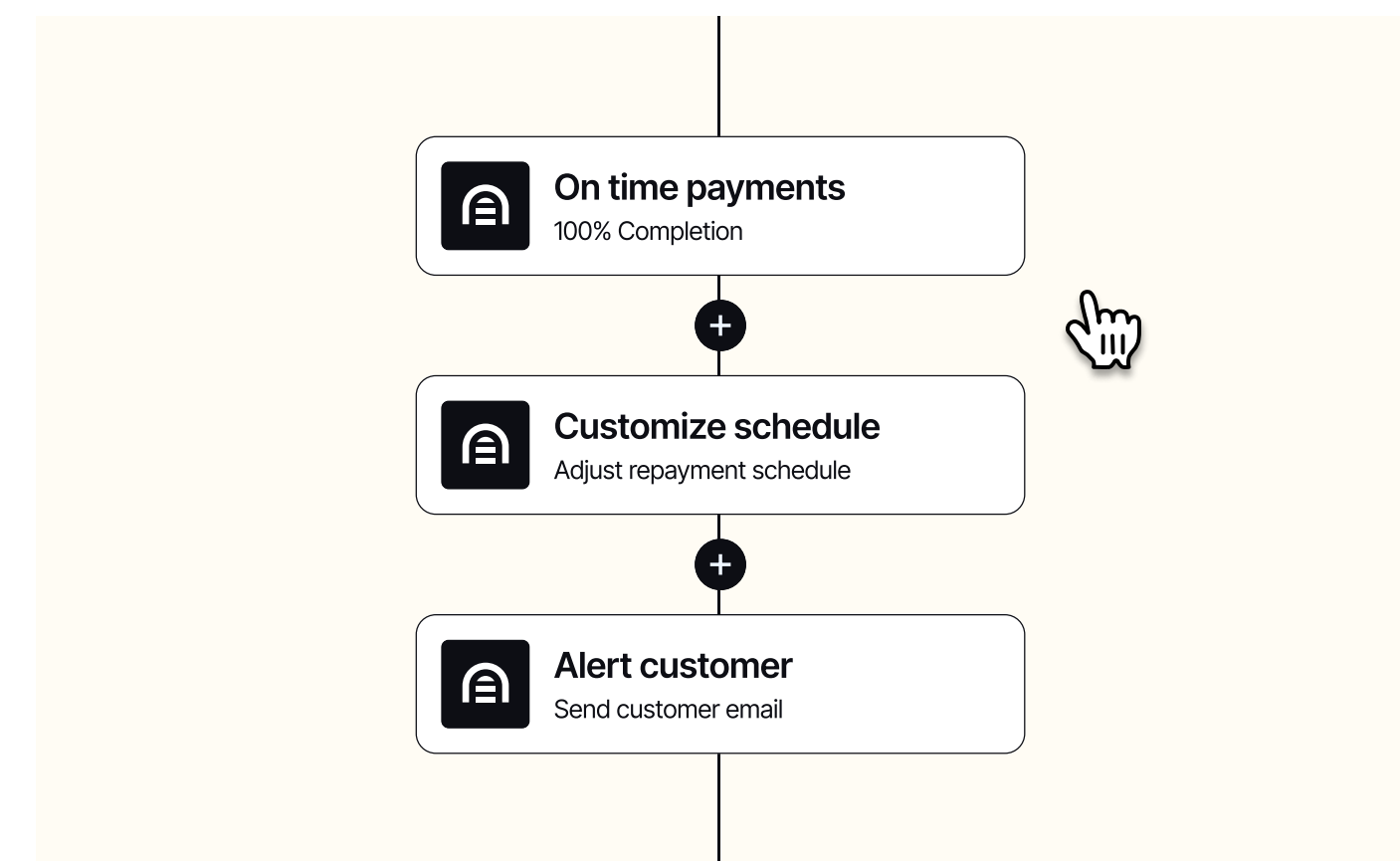
Developing a communication strategy that provides personalized updates, educational content, and reminders through the customer's preferred channels (e.g., email, SMS, mobile app notifications) is an important part of a successful program. There also needs to be self-service options where online portals and mobile apps allow borrowers to view their loan status, make payments, request additional funds, and access support.

Cycle Automations

End-of-cycle Statement Data Generated + Format Data for PDF Statement + Email Statement to Borrower

Flexibility, streamlining, and automating

Loans are not one size fits all. Offering borrowers the option to customize their repayment schedules according to their cash flow, such as choosing the payment dates or adjusting the repayment frequency, can be a key differentiator.

Vertical SaaS companies specializing in one area, such as construction software, have a major advantage. Awareness of payment cycles, slow seasons, and other industry nuances can help build flexibility into the lending plan.

On time payments
100% Completion

Customize schedule
Adjust repayment schedule

**Alert customer**
Send customer email

Payment holidays and refinancing options are other ways to assist customers during financial hardships and periods of lower interest rates, subject to approval and conditions.

Automation and streamlining go hand in hand with offering flexibility to your borrowers. Using AI and machine learning will streamline the underwriting process to quickly assess risk, and automate the disbursement of funds to speed up the lending process. The same goes for reconciliation, where you can implement systems that automatically reconcile incoming payments with outstanding balances, reducing manual errors and administrative overhead.

Fostering a culture of innovation

Advancements never end, and you should ensure you have established mechanisms to collect and act on feedback from both borrowers and staff. Use this feedback to refine borrower experiences and internal processes.

Product launch

Customer experience

Product iteration

Operational feedback
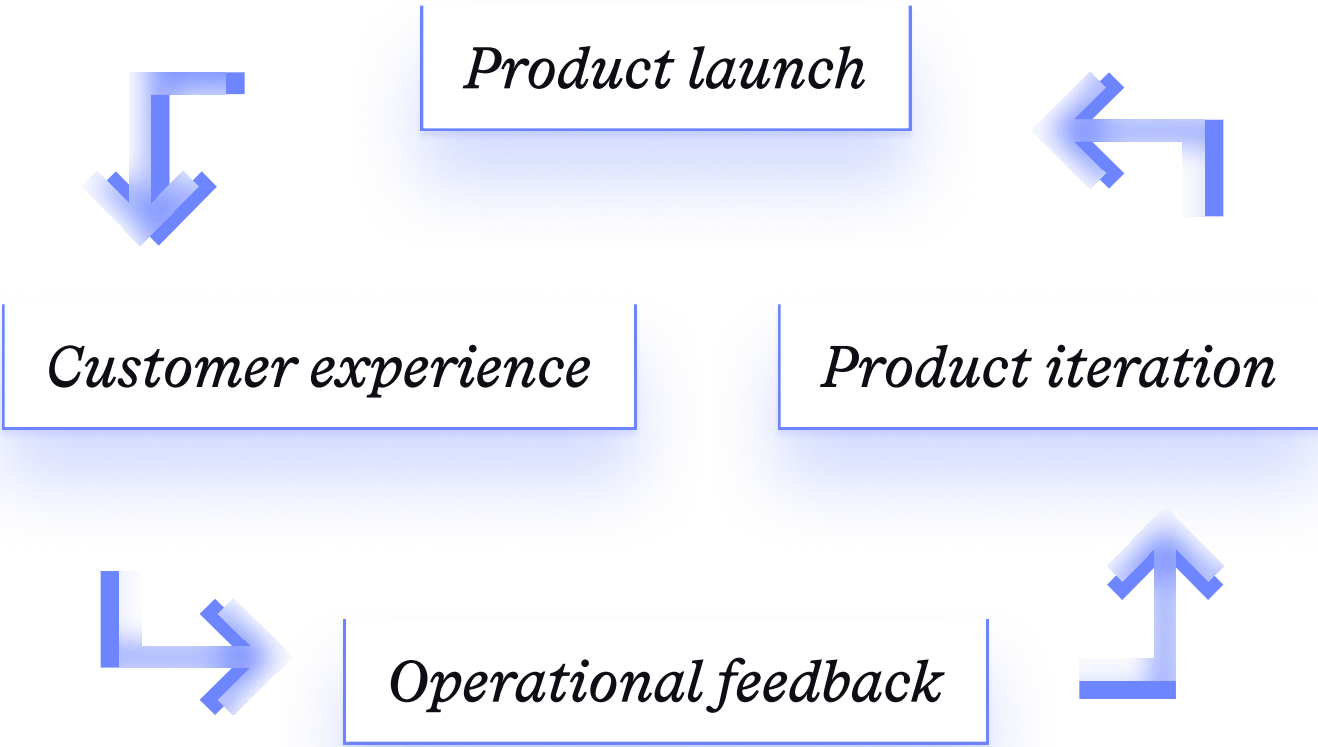
Legal

Building your terms and conditions in compliance

What licensing and registration requirements must lenders meet to operate legally?

How do lenders comply with fair lending laws?

What are the requirements for BSA/ AML compliance?

What are the specific regulations and requirements for commercial lending?

How do privacy, data protection, and usury laws impact commercial lending?

How can lenders implement and maintain ongoing compliance?

Building a commercial loan program involves navigating a complex landscape of legal and compliance considerations to ensure that the program operates within regulatory requirements and mitigates risks effectively. These considerations cover a broad spectrum of laws and regulations at both the federal and state levels, as well as industry best practices.

Here's an overview of key legal and compliance considerations for building a commercial loan program:

Contracts

Building your template loan agreements is the first step towards assessing your risk, legal and regulatory requirements, and collateral as a lender.

Legal Considerations

■ *What key terms and protections should you add for your financial product type?*

■ *What areas of the contract can you move into terms and conditions so customers have a streamlined borrowing process?*

■ *Are you willing to accept redlines or are contract terms a set template you will not negotiate?*

■ *How will you communicate pricing in a way that's digestible to borrowers and compliant with lending regulations?*

Licensing, registration and fair lending

Depending on the jurisdiction and the type of lending activities, lenders may be required to obtain specific licenses to operate legally. Lenders must register with appropriate regulatory authorities, which could include federal and state regulators. There are also important laws such as the Equal Credit Opportunity Act (ECOA), the Fair Housing Act (FHA), and the Truth in Lending Act (TILA) which protect borrowers and ensure full disclosure around the cost and terms of the loan. Generally speaking, commercial lenders are less regulated versus consumer or mortgage lenders, although SMB loans can be regulated as consumer loans.

Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) compliance

These regulations require financial institutions to assist government agencies in detecting and preventing money laundering and terrorist financing.

Privacy, data protection and usury laws

The Gramm-Leach-Bliley Act (GLBA) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. The General Data Protection Regulation (GDPR) and California Consumer Privacy Act (CCPA) govern the collection, processing, and storage of personal data. Usury laws regulate the amount of interest that can be charged on a loan. The allowable interest rates and fees vary by state, and compliance with these laws is essential to avoid penalties.

Commercial lending specific regulations, risk management and capital requirements

Article 9 of the Uniform Commercial Code (UCC) governs secured transactions, including the creation and enforcement of security interests in personal property.

Covenant compliance means ensuring that loan agreements include appropriate covenants and that there is a system in place for monitoring compliance with these covenants. When it comes to risk and capital requirements, the Basel III Accords and Dodd-Frank Wall Street Reform and Consumer Protection Act are two key regulations, which include provisions related to risk management and capital requirements for banks and other financial institutions.

Implementation and Ongoing Compliance

Implementing a comprehensive compliance program requires a deep understanding of applicable laws and regulations, as well as a commitment to ongoing monitoring and adaptation to changes in the legal landscape. This typically involves:

Compliance Training

Regular training for staff on legal and compliance issues.

Audit & Review

Regular audits and reviews of compliance practices and procedures.

Technology & Automation

Leveraging technology to streamline compliance processes, such as automated monitoring systems for AML compliance or loan origination systems that include built-in compliance checks.

Canopy

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