BKR H/LL

Lending Better, Faster & More:

Harnessing AI to Win the Future of Business Lending

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Award Winning Banker

Abdiel Garcia

SVP/Director of Business Banking & Consumer Lending at Montecito Bank & Trust

2025 Pacific Coast Business Times Latino Leadership Award

"AI won't take your job...

the person who uses AI will take your job."

Jensen Huang – Founder NVIDIA

AI won’t replace lenders,

but lenders who use AI will replace those who don’t.

The Business Case For AI Transformation

How AI can transform lending relationships for a small or medium sized business.

Customized lending solutions

Bank is integrated with business management / accounting systems.

Business gets a loan offer based on company projected cash flows.

Micro-expression analysis on apps

Business answers short questionnaire; app scans their facial movements.

Business is credited with funds after application approval.

Seamless inventory & A/R management

App suggests items to reorder, gives visual reports on receivables management.

Business receives customized solutions for invoice discounting, factoring, etc.

SME platform to source vendors

Business is assisted in sourcing and selecting the right suppliers, buyers and partners.

Beyond-banking support services

Business gets prefilled tax documents to review and approve files with a single click.

Serviced by an AI-powered virtual adviser

An AI-powered virtual adviser resolves queries.

Business seeks professional advice on a lending offer.

Intelligent • Personalized • Omnichannel • Banking and Beyond Banking

Understanding Your Customers

Needs

Anticipate small business owner needs

Behaviors

Products purchased online, parts of purchase journey that are digital preferred platforms

Context

Life stage, upcoming events, sources of income, occupation, etc.

Preferences

Preferred channels, best time to contact, etc.

Why This Matters Now

85%

of small business owners said that speed to loan approval is important when selecting a lender.

3.5%

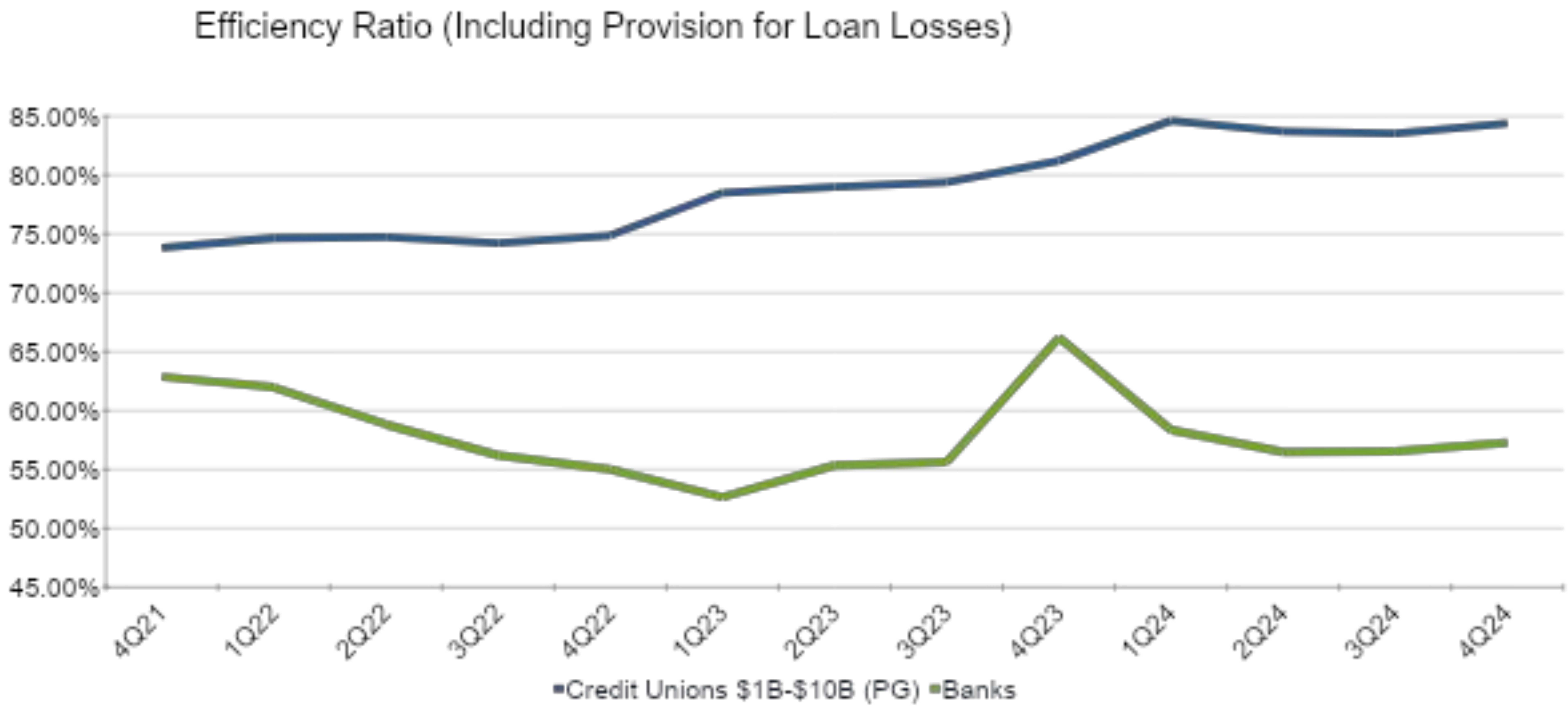
increase YOY for the past 4 years in the efficiency ratio for most credit unions

44%

percent of employer firms said credit availability for expansion from a credit union or bank was a challenge in the past year.

Sources: Lendio, Callahan & Associates Peer Data May 2025, Wharton SMB Study

Why This Matters Now: Rising Economics



Source: Callahan & Associates Peer Data May 2025 and Federal Deposit Insurance Corporation

The AI Small Business Lender of the Future

AI Powered Lender of the Future

PROFITABILITY | PERSONALIZATION AT SCALE | OMNICHANNEL EXPERIENCE | SPEED AND INNOVATION

REIMAGINED ENGAGEMENT

1. **Intelligent products, tools, experiences for business owners and employees**
2. **Within-bank channels and journeys** (e.g., web, apps, mobile, smart devices, branches, Internet of Things)
3. **Beyond-bank Channels and journeys** (e.g., ecosystems, partners, distributors)
4. **Smart service and operations**

5. Digital Marketing

AI-POWERED DECISION MAKING

6. Advanced Analytics

- Customer Acquisition
- Credit Decision Making
- Monitoring and Collections
- Retention and Cross-Selling, Upselling
- Servicing and Engagement

7. AI Capabilities

- Natural-language Processing
- Voice-script Analysis
- Virtual Agents, Bots
- Computer Vision
- Facial Recognition
- Block-Chain
- Robotics
- Behavioral Analytics

The Lender Superpower

Relationships | Empathy | Emotional Intellect | Creativity

Core Use Cases of AI in The Future of Lending

Leadership | Agility | Execution

Borrower Engagement

Financial institutions will need to reimagine how they engage with borrowers, making their experiences as intelligent, personalized, and frictionless as possible through the use of AI solutions.

Risk Assessment

Historically, banks have focused on deploying traditional analytics modules such as models, but as AI technologies mature, this layer has expanded to include agent and AI orchestration sublayers working in unison with the traditional analytics layer to drive superior outcomes.

Automation & Data

The automation and data layer is needed for an AI transformation, including reusable tools and pipelines equipped with machine learning operations capabilities needed to run AI scale.

AI & Borrower Insights

AI for Small Business Owner Insights

Personalized Financial Advice

AI-powered algorithms analyze vast amounts of data, including spending habits, income, and investment preferences, to provide tailored financial advice.

Enhanced Business Owner Service

AI-driven tools provide 24/7 support, answering queries, processing transactions, and offering personalized recommendations based on the business profile.

Streamlining Operations

By automating routine tasks such as fraud detection and compliance monitoring, AI helps institutions reduce operational costs and improve efficiency.

Predictive Analytics

AI-powered predictive analytics enable banks or credit unions to anticipate business owners needs and offer proactive financial solutions

Benefits of an AI Driven Borrower Experience

10% ▲

Boost in Revenue

20% ▲

Increase in
Borrower Satisfaction

60% ▼

Reduced Effort in
Audience Selection

13% ▼

Decrease in
Operational Costs

Source: Cap Gemini Insights

AI & Risk Assessment

Free Up Your Team to Manage Risk

Focus on strategic work, not paperwork

Time Reading Email

-31%

Copilot helped employees at one institution spend less time reading email.

Time in Meetings

-16%

At one institution, people with access to Copilot spent less time in meetings.

Word File Co-Creation

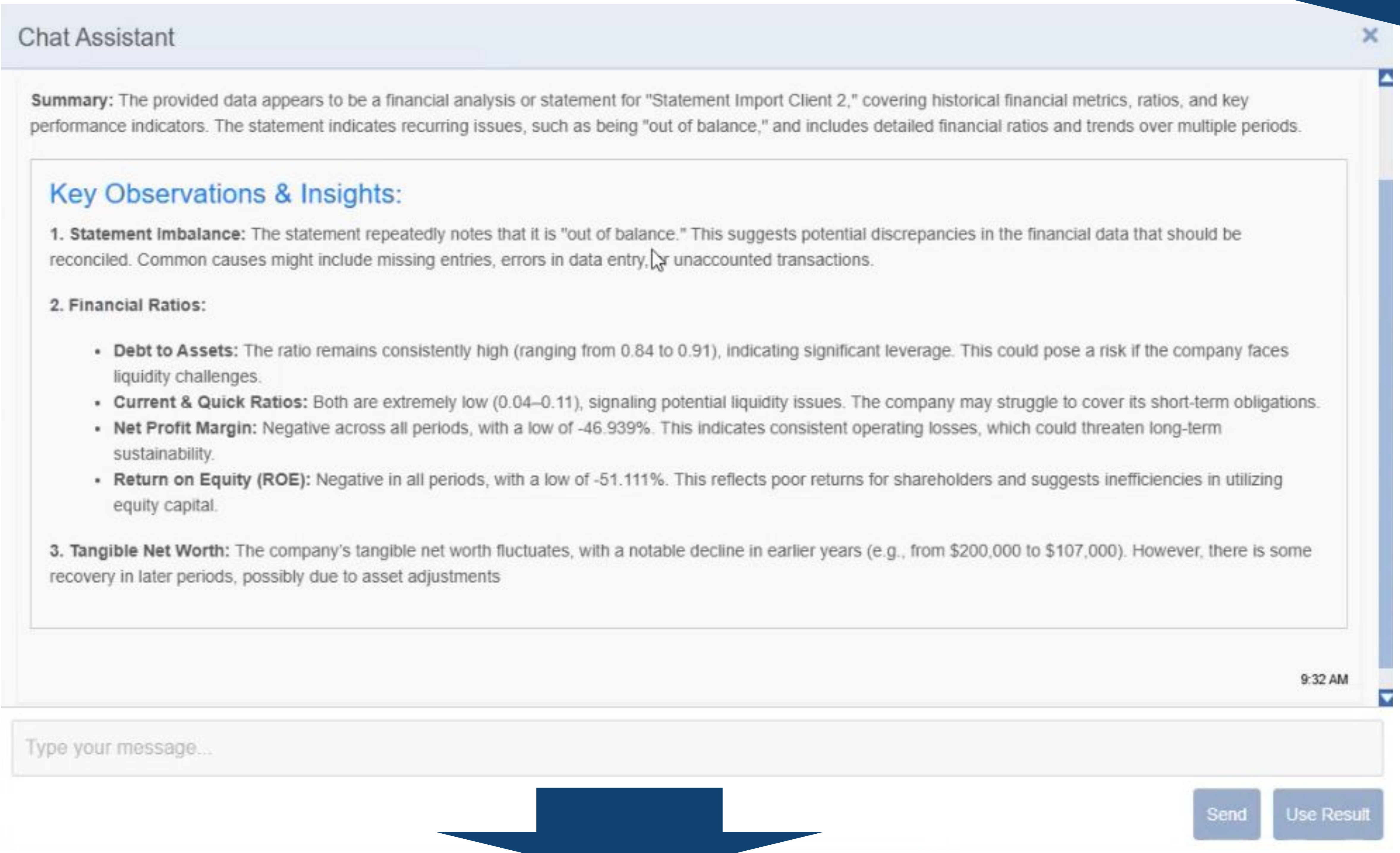
+58%

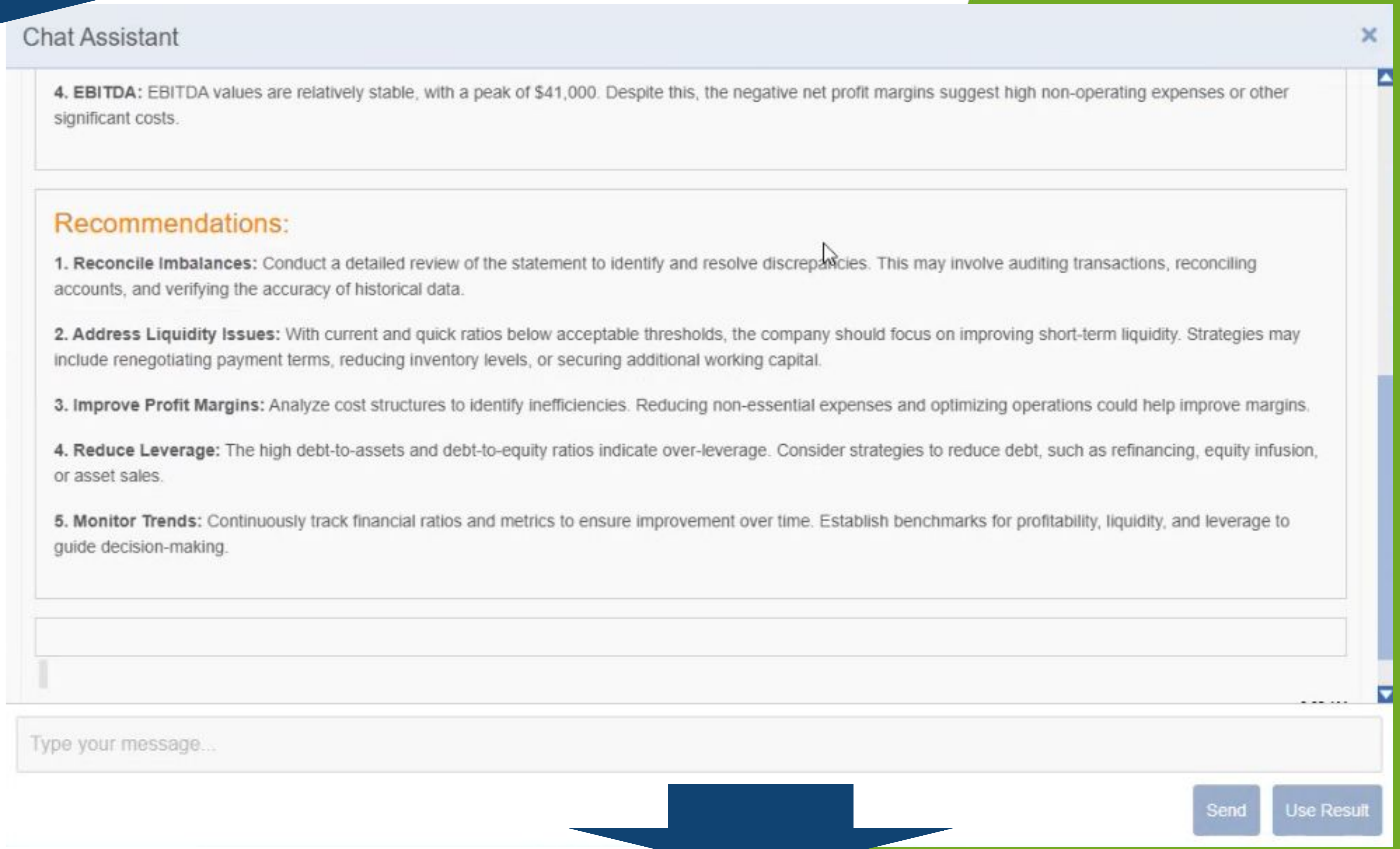
People using Copilot at a firm produced more content.

Source: Microsoft

AI in Action: Underwriting Example

Financial Spreads on a Small Business





Credit Memo for Business Loan Application

Summary By Copilot

Generate

CREDIT MEMO — DEAL 100011222

Modules: Deal Snapshot Deal Summary Deal Exposure Relationship Summary Property Income Decision Borrower Information Opportunity Details Statement Spreading Reports

Analysis: Background Info Loan Purpose Collateral Analysis

Deal Snapshot

Opportunity 1			
Key	8373	**Lender**	Lender Swift
Primary Borrower & Legal Structure	White River Properties LLC Limited Liability Corporation	**Co-Borrower(s) / Guarantor(s) (Score)**	Christian Bauer - Guarantor (676) Earl Bailey - Guarantor (690) Omar Garcia - Guarantor (747) White River Whiskey Inc - Guarantor
Loan Type	New - Non-OO CRE	**Requested Amount / New Money**	$2,500,000.00 / $2,500,000.00
Proposed Rate (Payment Structure)	9.50% (Principal and Interest Included)	**Proposed Term (Amortization)**	60 Months (60 Months)
Loan Grade	Not Set	**Purpose**	Not Set
Risk Rating Name	Commercial Credit CI Scorecard	**Risk Rating**	3.35
ROA / ROE		**RAROC**	
Collateral	Real Estate - Commercial Real Estate - $1,275,000.00 (Third Party Comparables) Real Estate - Commercial Real Estate - $12,000,000.00 (Appraisal)		
LTV	18.8%		
CPMs	No Violation CPMs triggered for this opportunity. No Warning CPMs triggered for this opportunity. Total Client Deposit Accounts > $100,000 Discuss Sweep Account The Global DSCR after loan is greater than 1.25 The LTV is less than 60%		
Summary of Needs	Loan to fund the expansion of the distilling operation building in Westfield		

Deal Summary

Copilot

Hello Lucas,!

Here are some ideas to get you started.

Summarize this doc

Generate an audio overview from this document

Extract text from this image [add an image]

Suggest a list of action items from this file

How can Copilot help?

Message Copilot

Summary By Copilot

Generate

CREDIT MEMO — DEAL 100011222

Modules: Deal Snapshot Deal Summary Deal Exposure Relationship Summary Property Income Decision Borrower Information Opportunity Details Statement Spreading Reports

Based on these factors, the loan request appears to be well-supported by collateral and financial ratios. The purpose of the loan aligns with the growth strategy of the borrower, and the property has a strong security profile. However, the final decision should also consider any additional risk factors and the overall credit policy of the lending institution.

Would you like to discuss any specific aspects of the loan request further?

1 "White River Proper..." 2 "Limited Liability..." +16

Insert

What are the additional risk factors? How does this align with our credit policy?

Message Copilot

Summary of Needs	Loan to fund the expansion of the distilling operation building in Westfield

Deal Summary

Copilot

consider for approving the loan request:

Borrower Information:

- The primary borrower is **White River Properties LLC** [1], a limited liability corporation [2].
- The co-borrowers/guarantors include Christian Bauer (credit score: 676) [3], Earl Bailey (credit score: 690) [4], Omar Garcia (credit score: 747) [5], and White River Whiskey Inc [6].

Loan Details:

- The loan type is **New - Non-OO CRE** [7].
- The requested amount is **$2,500,000.00** [8].
- The proposed rate is **9.50%** with principal and interest included [9].
- The proposed term is **60 months** [10].

Collateral:

- The collateral includes commercial real estate valued at **$1,275,000.00** (third-party comparables) [11] and **$12,000,000.00** (appraisal) [12].
- The loan-to-value (LTV) ratio is **18.8%** [13].

Financial Ratios:

- The global debt service coverage ratio (DSCR) after the loan is greater than **1.25** [14].
- The LTV is less than **60%** [15].

Purpose:

- The loan is intended to fund the expansion of the distilling operation building in Westfield [16].

Decision Factors:

- The property generates steady rental income and is central to the whiskey business's growth [17].
- The expansion will increase the distilling capacity by 50%, supporting growth in the competitive Midwest whiskey market [18].

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What are the additional risk factors? How does this align with our credit policy?

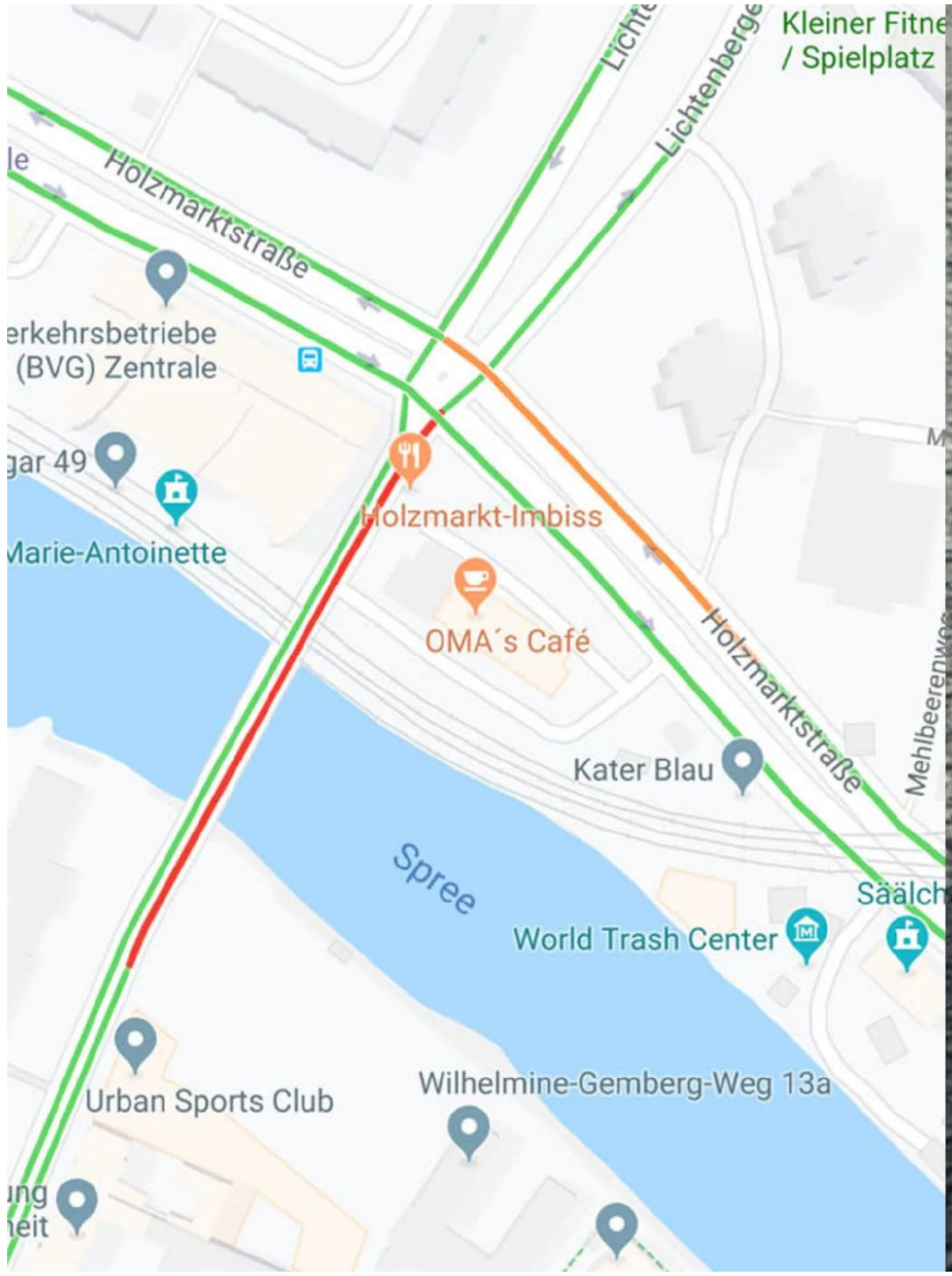
Message Copilot

Beware of Bias, Hallucinations & Bad Data

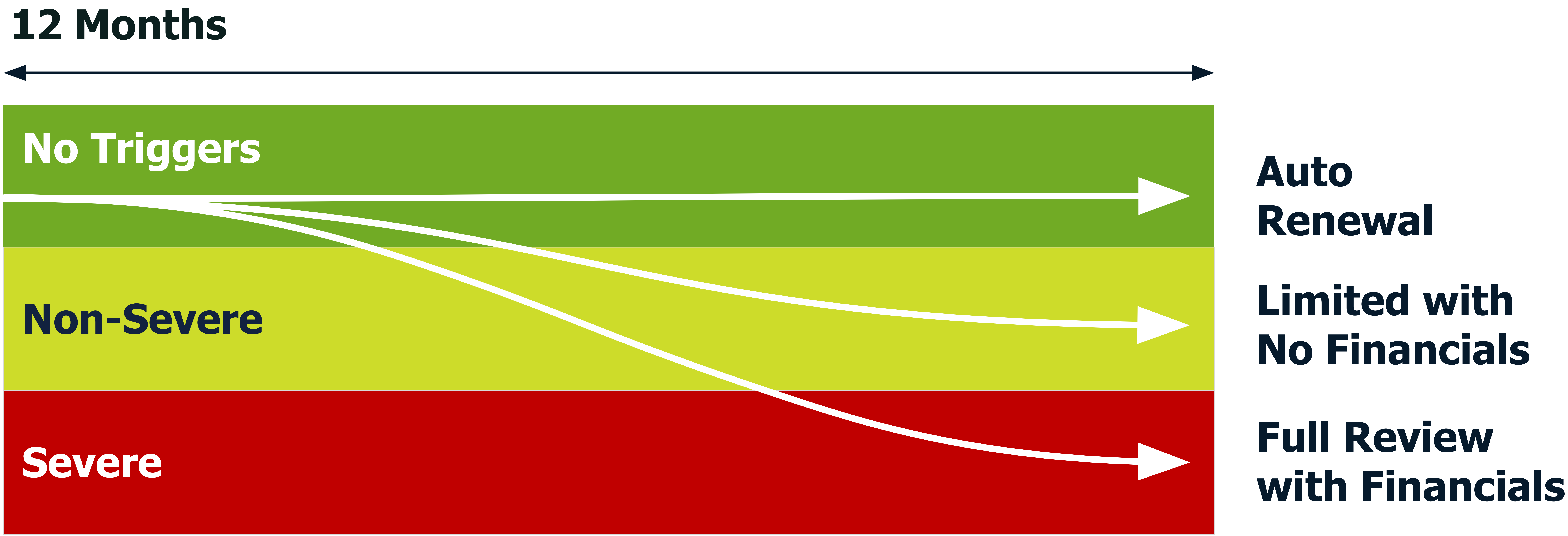
Lessons from a 80's German Rock Band

Beware of Bias, Hallucinations & Bad Data

Lessons from a Modern German Artist



Renewal and Review Segmentation



Holistic Monitoring of the Portfolio

Loan Data

Line usage
Frequency of past dues
Severity of past dues
Lack of usage

Deposit Data

Deposit activity
Number of overdrafts
Duration of overdrafts
Account closure

Baker Hill Portfolio Monitoring

Intelligence looking for patterns that indicate potential risks and opportunities in the portfolio.

Credit Data

Short-term score change
Annual score change
Minimum score levels
Public records

Other Data

Credit policy violations
Score overrides
Ratios
Alternative Data

ROI on Generative AI

For every $1 a company invests in Generative AI, it is realizing an average return of

$3.70

Source: Microsoft

AI Automation and Data Assets

AI in Action: Automation & Data Example

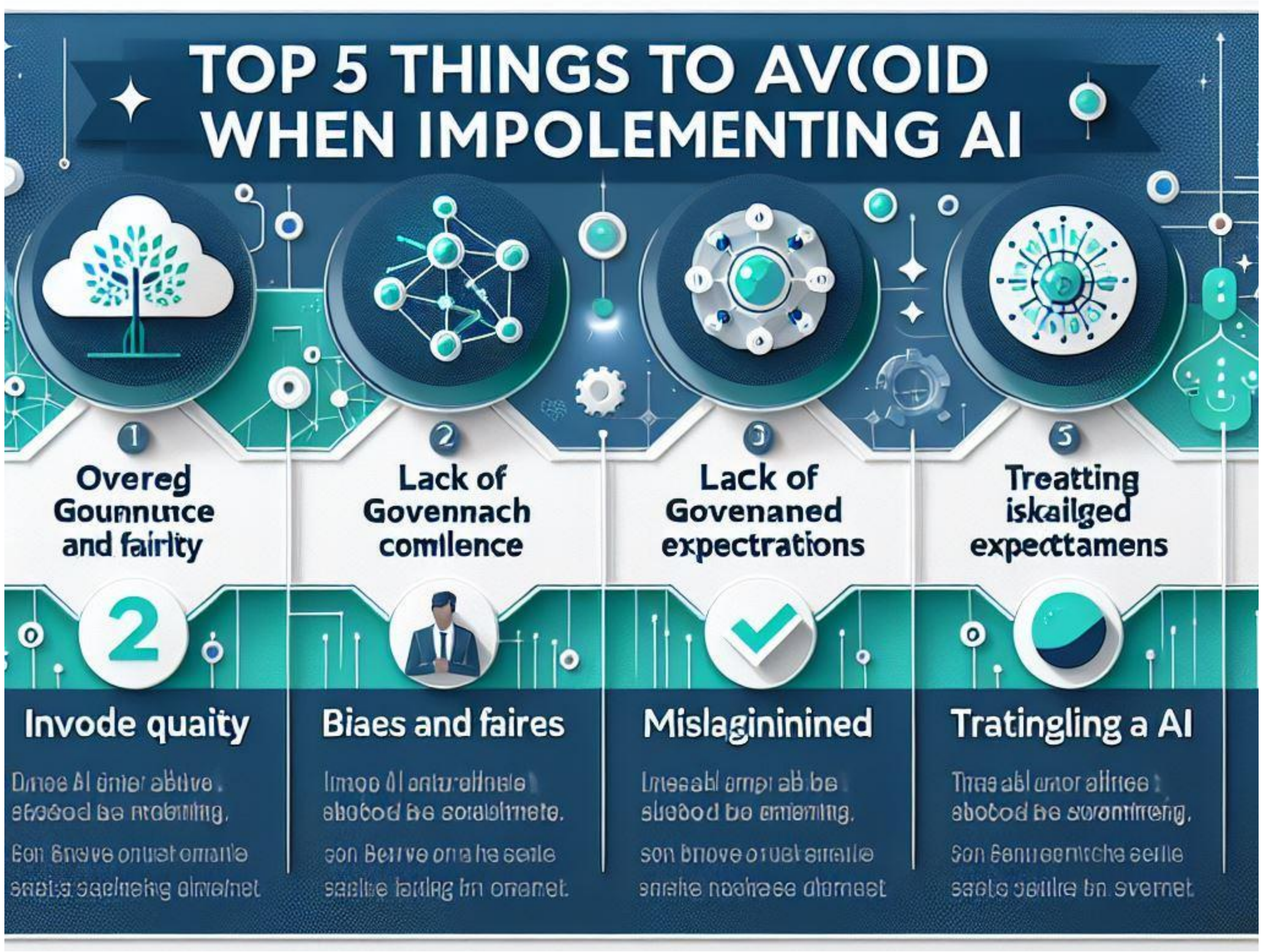
	Single Event Impact	FI Annual Cost
New Policy Creation	$9,600	$60,000+
Existing Policy Review	$12,000	$50,000
Investor Relation Annual Reports	$150,000	$300,000
Staff Self-direction	$10,600	$30,000
New Product Research	$12,000	$50,000

A typical compliance focused AI solution, such as Baker Hill Comply, can address & augment all compliance and regulatory issues for approximately 7-10% of current compliance costs at a financial institution.

Source: NuArca Labs & Baker Hill

Next Steps and Final Thoughts

Common Mistakes to Avoid



Common Mistakes to Avoid

Ethical Considerations

Scalability Issues

Inadequate IT Infrastructure

Post-Development Support

Misaligned Expectations

Focusing on “Cool” Technology

Lack of Data Security

Lack of Testing

Treating AI as a Silver Bullet

Ignoring Bias

Weak Leadership

Lack of Expertise

Poor Communication & Collaboration

Automation Without Understanding

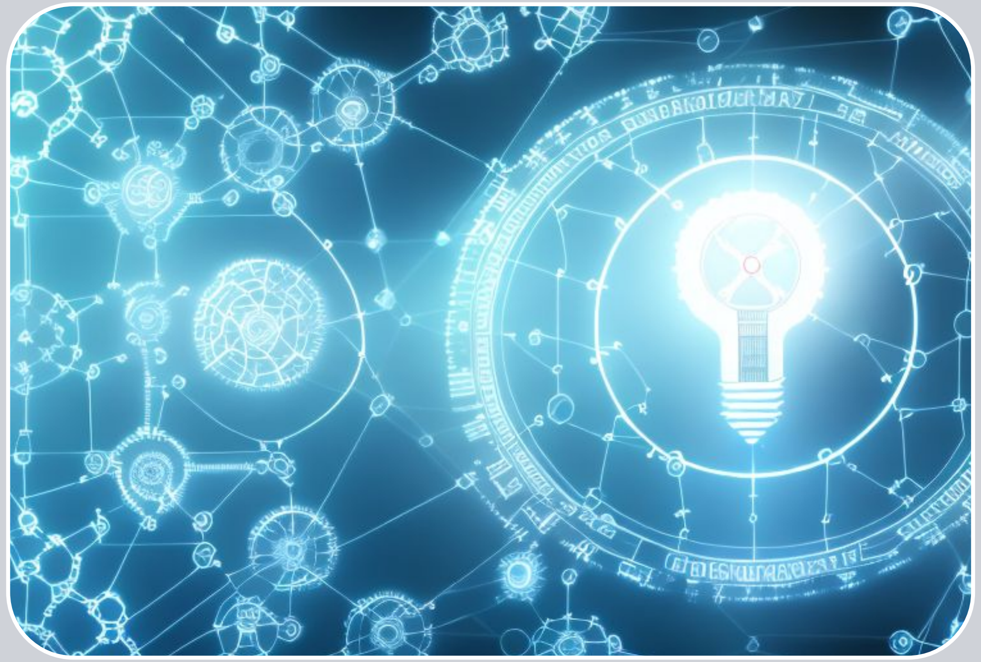
Ignoring Long-Term Strategy

Lack of Governance

Data Quality

Building Your AI Foundation

Focus on an area where proactive AI can be impactful today



Deeply vertical system for specific banking functions – one system can NOT do it all

Trust but verify – must be 100% transparent and enable confirmation of results

Execute within organizations risk appetite and regulatory obligation

Let's Talk

Explore Tools

Get Support

Connect with Baker Hill

B K R H / L L

THANK YOU

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