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# **The last mile of digital transformation:**

Why it's time to  
modernize loan  
servicing



Over the past decade, banks have made substantial investments to modernize loan origination and enhance front-end customer experiences—from the initial application process to more efficient underwriting. Conversely, the loan servicing function has been left behind, still relying on legacy platforms built more than 30 years ago. This reliance on outdated systems creates a **critical competitive disadvantage and exposes banks to increased operational risks.**

Relying on legacy servicing platforms often can drive up operational costs or lead to stale operating models, increase compliance risks, slow product innovation, and result in disjointed borrower and employee experiences. As lending origination platforms reach maturity and client expectations continue to rise, modernizing servicing operations is no longer optional. It is essential for banks to remain competitive, continue to meet regulatory compliance, and enable seamless, differentiated customer experiences. Upgrading servicing infrastructure can transform this historic back-office utility into a strategic enabler of growth and innovation in digital lending.



# Why servicing can't stay in the past

Most banks have loan servicing platforms that were implemented more than 30 years ago, when the goal was to move off paper documentation and ledgers, and these platforms utilized languages like COBOL and outdated architecture design practices to help process large volumes of transaction. While these legacy platforms brought batch processing and manual workflows, today they often fail to keep pace with demands for real-time data processing, product flexibility, and borrower-centric digital experiences.

## The eight major consequences of not modernizing loan servicing platforms:

- 1. Difficulty meeting customer needs** – Banks need to keep pace with evolving customer expectations, such as the increased demand for a digital portal that allows for self-service, direct management of loan accounts, and access to real-time support. Legacy platforms continue to depend on batch processing and poor automation options, leading to **delays in processing of customer requests, payment processing**, and even **hindering the ability to introduce customer portals**.
- 2. High operational costs** – Due to the limited automation capabilities available with today's servicing platforms, various steps within the workflow continue to be manual and labor-intensive. This, in turn, has made many parts of the process susceptible to human error and led to "check-the-checker" as common place, increasing both operational staffing needs and per-loan servicing costs, which overall limits a bank's ability to efficiently and cost-effectively scale.
- 3. Time-consuming innovation** – No matter the bank's or borrower's size, personalization of product offerings and tailored loan management have become a shared expectation. To provide this degree of flexibility with legacy solutions, banks are forced into building time-consuming and costly technical customizations. This has **slowed product innovation, limited introduction of new business models, and can hinder a bank's ability to expand its footprint domestically and globally**.
- 4. Monolith architecture** – While banks may look to adopt fintech solutions and modernize other parts of the lending value chain, **legacy servicing solutions can lead to compatibility issues and limit seamless integrations**. Banks may combat this with connectors and data extraction layers, but it results in **increased technical debt and further slowdown of future innovation opportunities**.
- 5. Cumbersome compliance and risk management** – With heavy regulation expectations and the risk of severe penalties, reputational damage, and even legal consequences for being noncompliant, **banks are forced into a manual and cumbersome compliance check process** as legacy platforms do not provide built-in features to support meeting regulatory requirements. Banks **struggle to have real-time audit trails and are required to tap into multiple different data sources to produce regulatory reporting**.
- 6. Data silos and limited insights/use of Generative AI (GenAI)** – Legacy servicing platforms were designed with their own data format and structure, limiting ability for data exchange and bringing unique data complexities across varying data structures and format. Consequently, banks today have **limited access to real-time and reliable data** and have **struggled to produce meaningful data analytics on their portfolios**, either manually or through GenAI solutions.
- 7. Security and resilience risks** – Modern security measurements and protocols have altered how banks handle the high degree of sensitive customer information they hold. With legacy platforms, **additional costly steps such as customized security patches could be required to secure data**.
- 8. Employee productivity and satisfaction** – Along with customer expectations, employee expectations have increased. Instead of empowering employees to be more productive, legacy platforms introduce **efficiency bottlenecks with clunky, unintuitive interfaces**. These outdated tools can **hinder the ability to attract, train, and retain top talent**.

# A pragmatic roadmap to modernization

Banks have been motivated to initiate their servicing modernization journey either to increase efficiencies gained from their origination transformation, to update platforms reaching end of life, or optimize outdated platforms and legacy ways of working. Yet, these banks are failing to see the complete set of benefits they sought and continue to be plagued by manual workflows, slow turnaround times, and high operational costs. Many times, the latency in seeing results is due to outdated servicing approaches or a “lift and shift” mentality.

These are not easy initiatives and can require significant monetary and human capital investments. Banks should not simply introduce new technology but consider reimagining the servicing process from all aspects. Modernizing loan servicing may seem complex, costly, and disruptive; however, leading banks have succeeded by not being discouraged by scope and scale; developing a strong business case for change; and taking a phased approach that balances speed, risk, and business impact.

Through our extensive experience, we have identified the five steps banks need to take to complete their commercial lending modernization journey:

## 1. Delineate between table stakes and differentiating capabilities

The first step toward modernization involves completing an evaluation of your end-to-end lending value chain to determine where your strengths and weaknesses are, which capability areas will provide a differentiating proposition, and which ones may continue to match the status quo. This means challenging what may be deemed as differentiators for your institution. Evaluating these strengths and weakness, capabilities, and gaps against the market will allow banks to gain an understanding of which investment areas could enable unique market propositions or help decrease operational costs. This could include certain technical customizations that maintain or introduce new market competitiveness, fintech platform enablement to support customer self-service capabilities, or prioritization of GenAI tooling and use cases. Other capabilities, such as adherence to regulatory or compliance requirements, can typically be met with out-of-the-box product capabilities to match industry standards and may not need additional investments. Banks that spend the time reviewing their capabilities tend to have a clearer vision and see a higher ROI.

## 2. Define a target operating model (TOM)

Modernizing loan servicing is more than a technology upgrade;

it requires a fundamental transformation of how a bank delivers value to its customers. The start of a successful transformation is with a robust target operating model (TOM), which helps ensure all facets of the business are aligned with strategic objectives. By conducting this comprehensive, end-to-end review of business processes, banks can focus new solutions on being tailored to future-state goals versus focused on resolving legacy pain points and building based on “as is.” This holistic approach enables organizations to break down silos; streamline operations; integrate innovative technologies such as GenAI from the start; and create a servicing ecosystem that is agile, resilient, and primed for sustainable growth.

## 3. Best-of-breed technology to support TOM and integration strategy

With a TOM in hand, the next step is focused on selecting best-of-breed technology. This is pivotal to realize the desired end state and could be done with a selection of next-gen servicing platforms and/or a suite of complementary solutions. It is essential to evaluate how these technologies would align with the bank's TOM vision, enable forward-thinking innovation and GenAI capabilities, and integrate with its existing architecture, to build connectivity and future-ready scalability. The right technology stack doesn't just modernize operations; it strategically powers your transformation.

## 4. Loan data identification and cleanup

Servicing transformation cannot be completely successful without a clear-eyed understanding of the data that underpins every loan within the bank's portfolio. Data identification, rationalization, and cleanup are foundational steps in any modernization, demanding a rigorous examination of where data resides, its quality, and its reason for migrating to the new platform. By challenging historic assumptions and scrutinizing legacy data, banks can avoid lingering inefficiencies and focus on using accurate, relevant information to power their future-state loan operations. This discipline helps rationalize migration effort and reduces cost. It can also remediate regulatory findings by embedding data integrity and transparency into the heart of the servicing platform.

## 5. Pilot with focus

A focused initial release has proven to be the ideal stepping stone, offering a controlled environment to validate new capabilities and build confidence before scaling. By selecting a specific product line or segment, such as a de novo term loan, for the initial rollout of a next-generation servicing platform, banks can closely monitor performance and mitigate risk. Establishing clear key performance indicators prior to pilot rollout, such as Net Promoter Score (NPS), compliance adherence, service-level agreements, and target operational efficiencies, helps track and measure progress with real data. This disciplined approach can also surface critical insights and drive lessons learned, leading to banks developing a repeatable playbook for future transformation.

# Capabilities unleashed by servicing modernization

Upgrades to legacy systems and technologies that manage your loan life cycle not only can help revamp current ways of working but also introduce new capabilities for the bank. It is crucial to understand that the capabilities unleashed go beyond just technology and are meant to fully transform your loan servicing operations across people and processes. The table below outlines 11 high-value capabilities that can be reached with a successful loan servicing modernization effort.

	High-value capabilities	What legacy servicing platforms offer today	What modern servicing platforms allow for
1	Technology architecture	Monolithic, on-premise, batch processing	Cloud-native, API-first, real-time processing and headless architecture
2	Product launch speed	Months to quarters; heavy IT dependency	Weeks or days; low-code/no-code configuration
3	Customer experience	Phone and manual processes; limited self-service	Omnichannel digital; self-service borrower portals
4	Compliance and regulation	Manual updates; slow, costly audits	Automated workflows; real-time audit trails and reporting
5	Data and analytics	Siloed, delayed data; limited insights	Integrated operational data; real-time analytics and dashboards
6	Scalability and flexibility	Difficult and costly to scale or customize	Easily configurable business rules
7	Operational efficiency	High manual touchpoints; prone to errors	Automated processes; exception-based workflows
8	Integration ecosystem	Limited APIs; difficult third-party integration	Open APIs; easy integration with lending ecosystem
9	Risk and fraud management	Reactive and manual	Proactive, AI-powered, and embedded in servicing workflow
10	Innovation enablement	Rigid, slow to change	Agile platform enabling rapid development or configuration, testing and iteration
11	Use of GenAI	None or very limited	AI-driven servicing with exception-based processing



# Final thoughts: Servicing is critical infrastructure. It's time to treat it that way.

Within five years, banks that fail to modernize loan servicing will likely struggle to compete in embedded lending, real-time credit, and digital-native borrower experiences. Meanwhile, they will continue to face rising costs, compliance risks, and customer churn.

Conversely, Deloitte's experience shows that banks with modern servicing infrastructure have potential to achieve tangible benefits, such as:

- Launching products **2x–3x faster**.
- Cutting servicing costs by **up to 40%**.
- Delivering **consistent, omnichannel** borrower experiences.
- Turning operational data into **actionable insights** for growth and risk mitigation.

The divide between legacy and modern lenders is **widening and accelerating**. Modern loan servicing platforms are no longer just back-office utilities—they are the foundation of customer trust, innovation, and compliance in the digital lending era. **Banks should consider moving beyond patchwork fixes and invest in scalable, cloud-native platforms that enable agility, reduce risk, and power growth.** Banks that get this right will be well-positioned to deliver differentiated client experiences, drive operational efficiency, and respond nimbly to market and regulatory changes. **Modernizing commercial loan servicing is a complex journey, but focusing on these fundamentals will help bring long-term success and resilience.**

Ready to transform your commercial loan servicing operations? Deloitte brings deep experience, proven methodologies, and industry-leading assets to help you accelerate business value and achieve lasting results. We've successfully collaborated with financial institutions to streamline loan servicing processes, unlock efficiencies, and drive growth. **Connect with us today** to get started on your journey to smarter, more agile loan servicing.

Interested in learning more?

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