

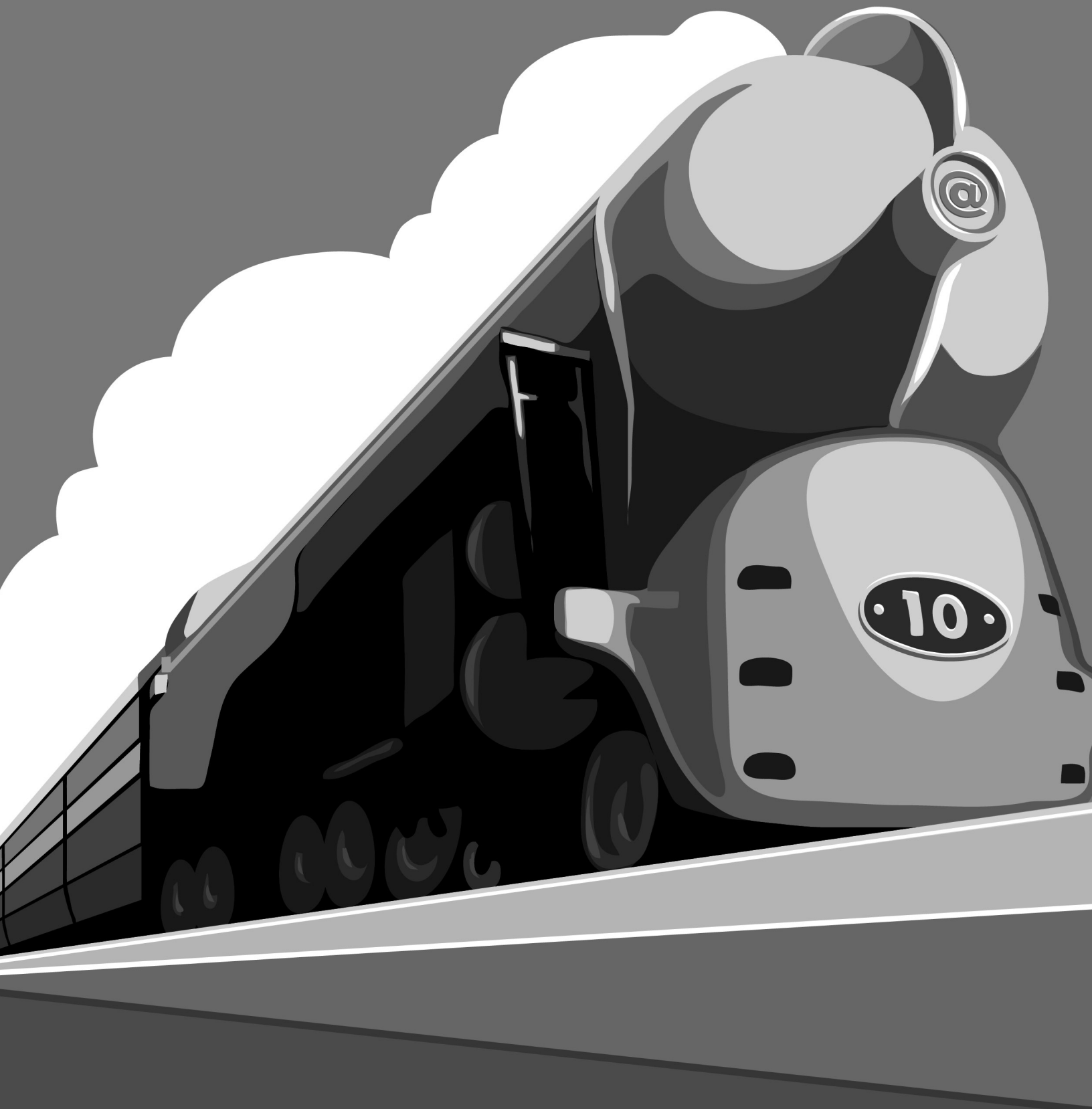
Streamlining *the* **P**rocess: *What's Possible?*

BY
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Here are 10 benchmarks to gauge how far along your company is in its efforts to truly streamline the mortgage process.

THE MORTGAGE INDUSTRY IS SHOWING early signs of readiness for yet another paradigm shift in the way institutions view the mortgage process and manage their operations. This time, the mortgage process will be streamlined down to its most basic elements. **▀** Many lenders are already making significant progress in creating the organizational and technology framework for a leaner, end-to-end mortgage process. Standards like those developed by the Mortgage Industry Standards Maintenance Organization Inc. (MISMO) have given the industry the ability to communicate between disparate systems. But what are the critical elements that will help lenders continue to move forward? And what is best-in-class for each of those elements? **▀** There are 10 critical strategic, process and technology benchmarks that institutions must achieve to gain the cost and competitive benefits of a fully streamlined mortgage operation. How far lenders have come—or still have to go—to maximize the efficiency of their mortgage processes can be determined by their progress against these benchmarks.

ILLUSTRATION BY CHRIS LYONS



The building blocks

There are three key building block technologies that are essential to implementing virtually all of the elements of a fully streamlined, end-to-end mortgage process. They are workflow, business rules and Web services.

WORKFLOW DEFINED

Workflow is a commonly used term that describes the automation of internal business operations, tasks and transactions that simplify and streamline current business processes. At the fundamental level, it is about defining and executing a series of tasks in the course of executing a business process.

By using software applications, tools and infrastructure to manage routine activities, process automation frees up employees to handle exceptions or perform more creative work. It can create tremendous efficiencies by eliminating non-value-added tasks, reducing process cycle time and ensuring a process is implemented in a consistent manner.

BUSINESS RULES DEFINED

A business rule is a statement that defines or constrains some aspect of the business by influencing its behavior. It is represented as an algorithm, logic statement, policy or regulation that governs some aspect of how a process instance is executed.

Business rules include things like calculations, approval steps, government regulations support and personalization of information. They allow institutions to automate “if this, then do that” decision-making logic based on their unique preferences and requirements.

WEB SERVICES DEFINED

Web services are a collection of communication standards using extensible markup language (XML) as a foundation that facilitates a consistent set of message formats and routing protocols like those created by MISMO. Services extend XML to define the interaction between two or more programs using Web services description language (WSDL).

Then, using an open, componentized architecture such as the Java J2EE platform, business objects like groupings of data (services) can be reused across multiple disparate channels and applications. By basing applications on standardized, modular components and providing services to those components, institutions can take advantage of “write once, use anywhere” programming efficiency.

The powerful flexibility and simplicity of operations driven by workflow, business rules and Web services technology will allow institutions to make tremendous gains in cost reduction, time-to-market, customer satisfaction and prof-

itability. But what are the specific issues that must be addressed to bring institutions these advantages? And how will they know when they are “there”?

The 10 benchmarks

In order to fully streamline the mortgage process, there are 10 distinct benchmarks that institutions can use to evaluate their current position and plan their progress against. First implementers will gain marketplace advantage and late adopters will undoubtedly have a tough time overcoming their momentum. Still, it’s not a matter of whether the mortgage industry will make the needed progress in these areas as much as a matter of when.

Understanding where the industry is headed, and then plotting a manageable plan for getting there, will be essential for all mortgage lenders. The following are the things they should focus on.

SUPPLY-CHAIN MANAGEMENT

Supply-chain management is an operating strategy most commonly associated with the automotive industry. At its core, it is a way of managing the entire manufacturing and distribution process from end to end, by providing real-time information to everyone in the chain. As a result, there are fewer redundant resources, a more efficient use of the overall infrastructure and just-in-time delivery of the end product.

The mortgage industry has what it needs to deploy this same model. In mortgage lending, end-to-end means lead generation and tracking to origination to underwriting to closing to servicing and default. The technology is readily available across the process spectrum in the mortgage chain (lead management, origination, servicing and default), and the services that are required such as credit, appraisal, flood, tax, fraud, title and default are all available electronically.

Standards-based integration technology ties it all together and enables additional efficiencies such as electronic invoicing and reconciliation to occur. By viewing the mortgage process as a supply chain, lenders will create more transparency—both into their processes and into those of their suppliers—and a mortgage operation that is consistent, efficient and scalable.

A SINGLE ORIGINATION PLATFORM

The mortgage industry continues to be subject to consolidation through a steady pace of acquisitions. Unfortunately, every time one institution acquires another, it also acquires another set of systems and platforms that must either be maintained and updated or phased out. The organization is subject to cost layering, slower product rollout and increased risk conditions as it necessarily focuses on managing a complex technology environment and diverts valuable resources from other critical areas just to keep all these systems running. The worst I’ve seen is a bank that is still operating 20 different origination platforms.

There is, of course, tremendous advantage to driving down to one origination platform for all origination channels, and some institutions are aggressively making progress in this regard. The key to doing so is a workflow layer in the technology, and the political will to implement and enforce the change.

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Institutions that weather the challenges to getting there will get much more than the simplicity of managing one system for all channels. They will also gain the efficiency of maintaining one database and one set of business objects.

While individual segments of the mortgage process may have unique business rules based on specific conditions, such as the fee structure for a retail channel versus that of the consumer-direct channel, in this example only one algorithm is needed to determine closing costs for all channels. The module or business object “estimation of closing costs” is called from a central place that all channels can access.

Clearly, one origination system for all channels is the best-in-class benchmark for which to strive. If you introduce a new lending product and find you’re still implementing the product in four or five different pieces of technology, you’re not there yet. On the other hand, if you implement one set of parameters and a set of tables that can be used by all your different channels, you’ve hit the mark.

DECISION ENGINES AT THE POINT OF SALE

There has been a fair amount of discussion about moving decisioning engines such as underwriting to the point of sale, but the possibilities are even more promising than that. The idea is to collect the minimum amount of data you need, and then run everything you can—from title decisioning, to valuation, fraud, flood, credit and settlement, as well as underwriting—to the front of the mortgage process.

Why? Because the earlier you understand the nature of the loan opportunity you have before you—everything from the type of borrower to the type of property to the loan-to-value (LTV) ratio to the title curative work required—the more efficiently you can drive the entire mortgage process.

A great example is the “slam-dunk” loan. Let’s say a borrower comes in with a 900 FICO® score, 40 percent down and a 60 percent LTV. Just sign a piece of paper and get the deal done, right? But unfortunately, that’s not the case. Instead, this loan will go through the same process as every other loan, good or bad, because there is no means by which a lender can circumvent the standard mortgage approval chain of events.

But if all decisioning engines were run at the point of sale, then every single loan could embark on a unique path through the mortgage process based on its specific characteristics. Instead of waiting until underwriting to determine what else is needed for loan approval, lenders would begin the mortgage process by automatically establishing the most efficient path for each loan based on what is needed for the loan to meet their requirements. Unnecessary processes would be eliminated, the best customers would get faster service and loans unlikely to be approved could be stopped before incurring costs across the mortgage process.

Everyone seems to be heading this way, and the best-in-class benchmark is having decision engines for underwriting and title/settlement services operating at the point of sale. Valuations are not quite there, and fraud is not quite there, but when lenders can render decisions, drive workflow and order required documents at the start of the mortgage process, the resulting efficiencies will be more than impressive.

UNIQUE WORKFLOW-DRIVEN PROCESS FOR EACH LOAN

Closely related to moving decisioning engines to the point of sale is utilizing workflow technology to electronically react to those decisions. In the previous example, a “slam-dunk” loan may move almost immediately to an offer to fund. Conversely, a loan with a low FICO score, minimum down payment and sketchy borrower employment history may require as many as 300 additional discrete processing steps before an approval decision can be rendered. In both cases, the minimal amount of work is done to meet the lender’s criteria.

Besides the obvious operational benefits (I’ve seen as much as a 40 percent reduction in overall processing costs), workflow-driven processes derived from point-of-sale decisions can also create a significant improvement in customer satisfaction. Because the workflow is unique to each borrower, originators can establish appropriate customer expectations at the beginning of their relationship. By explaining to borrowers what their specific process will look like, what documentation will be required and how long it is likely to take before the approval decision is made, borrower anxiety and impatience can be dramatically reduced.

As a result, loan applicants are more likely to become happy customers—both because their expectations have been met and because lenders have hired customer-service professionals instead of technology experts to manage the customer experience.

REMOTE IMAGE CAPTURE

STARTING EARLY IN THE PROCESS

When an originator begins the lending process, the borrower is normally asked for documentation such as a loan application form, W-2s for income verification and so on. From the earliest possible point of customer contact, instead of putting those papers in a loan file, lenders should immediately scan them into an image system that can then be accessed for all downstream processes. After the loan is processed, all documents except those that have to go to a custodian (such as the actual loan note) are destroyed.

In this best-in-class approach, all documents, including those produced for customer signature, are kept in an electronic file as an image or securable, manageable, archivable, retrievable, transferable (SMART) document. Then when the loan process is finished, the complete electronic folder is vaulted with the loan for servicing or subsequent sale on the secondary market. Servicing and customer-service processes must also be modified so that any time that document retrieval is required, it is handled electronically.

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STANDARDS-BASED WEB CONNECTIVITY TO ALL SERVICE PROVIDERS

When lenders have standards-based Web connectivity to all providers of services, they are able to shift work among vendors in hours/days versus weeks or months. As a result, orders can be assigned to those vendors that are performing at the highest levels and easily shifted when performance levels fall below lender requirements.

A classic example of the need for standards-based Web connectivity is the frequent logjams that occurred all across the mortgage industry during the recent refi boom as vendors were overwhelmed with orders. With connectivity to those vendors, lenders might have identified those that consistently performed well, and shifted work around to better meet the needs of their customers. Instead, customers were frustrated while lenders struggled with slow turnaround times from service providers that were unable to keep up.

To take it one step further, by incorporating a rules-escalation engine, lenders could also monitor ongoing vendor performance and automatically kick work over to another vendor or series of vendors if that performance failed to meet service-level requirements. Because there is no disruption in the process as lenders electronically manage their vendor network, loans stay on track and delays are avoided.

CUSTOMER WEB-BASED TRANSPARENCY INTO THE PROCESS

The most expensive thing any lender or servicer can do is answer the phone. Not only is it an inefficient use of a valuable employee resource, but it is largely inconvenient for customers. Borrowers are confined to their lender's operating hours to access information about the progress of their loan application or to find out anything about their current mortgage loan. As a result, more and more customers are demanding Web access to the information they need.

Allowing customers to look directly into a lender's processes to see what's going on is a low-cost solution. Using the Web, lenders can send borrowers e-mail updates or give them a password-protected log-on that allows them to check the status of a loan in progress, review exception items or take a look at the credit report received by their lender. In addition, servicing customers should be able to get routine customer-service questions answered on the Web. The higher percentage of Web-based answers people can get, the better for both customers and the institutions that serve them.

As institutions offer customers more transparency and Web access to the data that concerns them, more will take

advantage of their Web-based options. Driving up the percentage of customers who do so requires consistent communication, making Web-based tools easy to use and doing everything possible to make sure customers are satisfied with the results. The best-in-class benchmark is having more than 75 percent of the customer base regularly accessing their mortgage loans online.

RULES-BASED ESCALATION ENGINE ENABLES CUSTOMER SERVICE BY DESIGN

In the typical origination process, a processor has 80 files on his or her desk and works through them in whatever order makes sense to the processor. Instead, the processor should be working files based on which critical customer commitments are coming due first. A rules-based escalation engine could help him or her prioritize work based on those commitments. And when the processor leaves for vacation or is out sick, the critical things that must be done in his or her absence can be automatically reassigned to other work queues so customer promises are met.

In the same way, a rules-based escalation engine facilitates customer service by design rather than by accident. For example, if the workflow in a mortgage system orders an appraisal and the turnaround time does not meet the lender's requirements, the institution doesn't have to wait for a busy processor to notice the problem. Instead of requiring the processor to identify the hold-up, make phone calls to find out what's going on and track the vendor's progress, the system automatically fires off an e-mail to the service provider to determine the status and demand action. At the same time, it electronically alerts the processor working the file, and continues to escalate the alerts to supervisors, a manager or even the customer if the appraisal fails to be completed by the vendor.

The idea is to electronically monitor—and electronically attempt to cure—performance standards throughout the mortgage process. Ultimately, the business rules-escalation engine is designed to help lenders drive as much human error out of the mortgage process as possible and better satisfy customers.

SEAMLESS INTEGRATION INTO THE SERVICING PLATFORM

Lead management, origination, servicing and default systems all interact at multiple touchpoints, and much of the customer data contained in each system is needed in the others. Integrating them so they can all access the same data saves time, money and wasted effort.

The best-in-class benchmark here is the absence of rekeying. If at the end of origination there is rekeying of data into the servicing system, you're not there. If the loan goes into default and there is any rekeying of data or information that has to be entered that is already on one of your servicing systems, you're not there. If you have a lead-management/lead-tracking system that doesn't feed into the origination system, you're not there.

Any rekeying of data is a sign that the integration work between the various platforms is not as far along as it could be, and as a result redundant operations and time lags remain across the mortgage life cycle.

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WEB-BASED DATA UTILITY WITH ACCESS TO CERTIFIED DATA

Many in the mortgage industry believe that our future will be much more about data management than about technology-based differentiation. Access to the right data at the right time is very powerful, but how do lenders and servicers know whether their data is reliable?

There are three types of data that are generally available. Original-source data is just what the name implies—an institution accesses data from its original source, like verifying a property’s legal description by going directly to the land recording office that established that description.

Secondary source data may have been derived from original records, but has been re-created for a variety of uses and, therefore, may have been altered. One example is when lenders use taxing authority records to determine a property’s legal description instead of going directly to the land recording office.

The third type of data is certified data. In this case, a data provider goes to the original sources of various kinds of information, directly keys original data into systems that can be accessed by lenders and service providers, and certifies that the data is correct. The data is not altered from the original and becomes readily available to validate, refute or populate information as it is required throughout the mortgage process.

Using the Web to easily access certified data, lenders and servicers can be sure they are using accurate information wherever it is needed in the mortgage process. The risk of using erroneous information is reduced tremendously, and the need for data-integrity due diligence is virtually eliminated when data is

certified to be accurate by a trusted partner.

While we can all think of additional benchmarks that lenders can use to measure their progress, these are the “big 10” for streamlining the mortgage process. Some lenders have already made significant progress in many of these areas. Others may be just starting to implement one or two. Regardless of where lenders find themselves on the continuum, the possibilities are constantly being adjusted and expanded.

Technology has become the great agent of change for the mortgage industry, helping lenders work smarter, faster and more economically than ever before. As workflow, business rules and Web services are deployed across lending and servicing organizations, you can bet that tremendous benefits will follow. **MB**

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