Point of View

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A Return to Fundamentals: Five Ways Mortgage Bankers Can Lower Costs

Recently, a number of factors have come together to decimate the profitability of the mortgage banking industry. To regain its footing, the industry must return to mortgage banking fundamentals. A careful examination of each function within the mortgage business will determine if there is a better approach that will save money and improve long-term profitability.

Several recent influences have produced enormous change in mortgage banking. The financial crisis brought an unprecedented surge in default volumes, as well as loss mitigation solutions that rival the complexity of loan origination. Many servicers have experienced a five-fold explosion in loss mitigation and foreclosure operations, which initially caused substantial operational disruptions. With default and foreclosure rates now subsiding to record lows, many in the industry are left with bloated and over-managed operations.

More recently, TILA-RESPA Integrated Disclosure (TRID) requirements and other regulatory issues have consumed lenders' time and resources. In addition, many Consumer Financial Protection Bureau (CFPB) audits resulted in large fines and even tighter – but less efficient – operating controls. These factors, along with reduced loan refinancing volumes, have made mortgage banking a low-return business. In our post-TRID industry, mortgage bankers must develop a proactive set of initiatives which address CFPB and other regulatory concerns, and ensure the long-term viability of mortgage banking.

Initiative One: Revamp Staffing Levels and Processes

During the financial crisis, complex default processes and increases in loan default volumes led to dramatic staffing increases. Increased staffing, training and management was also needed to handle the new Home Affordable Modification Program (HAMP), which required servicers to conduct arduous processing and underwriting similar to loan origination. Additionally, foreclosure and bankruptcy volumes exploded, increasing five to six times normal volumes.

Now the pendulum has swung. In its third quarter 2015 survey, the MBA announced the lowest delinquency level since the before the financial crisis – 86 basis points below a year ago. In reaction, many servicers have initiated staff reductions in default functions. However, simply reducing staff does not address the complex infrastructure we have constructed. Not only must mortgage bankers cut staff positions proportional to the default volume decrease, but should also decompartmentalize existing functions.

Begin that rethinking in loss mitigation. When programs like HAMP were initiated, loss mitigation areas were divided into units handling application processing, underwriting and fulfillment with an overlay of a single point of contact to interface between these specialized areas and the distressed borrower. Now, a single point of contact can handle collection calls and loss mitigation processing, which will eliminate two sets of supervisory staffs.

By truly empowering the single point of contact, lenders can reduce operating costs, dramatically reduce one of the major CFPB friction points, and improve the customer experience. These individuals should be able to halt any foreclosure action without gaining the concurrence of the foreclosure staff– responsibilities that can be trusted to newly hired and unseasoned staff with proper training and processes.

Several other factors point to the need for decreased staffing and increased automation. Loss mitigation cases are often a higher proportion of the defaulted loan inventory. In the third quarter of 2015, Hope Now reported four loss mitigation cases were opened for every foreclosure sale. In addition, the MBA reports foreclosure rates are now at less than 2 percent – a third of what they were for typical prime servicers during the financial crisis. Just as with loss mitigation, staffing and supervisory positions can be reduced – or hiring delayed – in response to falling foreclosure and bankruptcy rates. Implementation of these changes may cause internal conflict between executive management and frontline staff and management. Employing an outside consulting firm to objectively look at the situation may be helpful in making these essential changes. Because these changes impact both staff and managerial positions, the potential savings are considerable.

Initiative Two: Manage Operational Performance One Employee at a Time

During the financial crisis, establishing controls and building operations were paramount. To control operating expenses, mortgage bankers must now return to enhancing productivity one employee at a time. Even if your organization has metrics related to departmental performance, they are of little use until you can fine-tune that information to reveal individual employee contributions.

When approaching this initiative, examine and streamline processes before setting expected standards.

Several recommendations will be helpful in your system's development:

- Follow the 80/20 rule. To determine which employees are performing better than others, build a system that captures about 80 percent of the items they are doing. If an employee is performing those well, it usually carries over to the remaining 20 percent.
- Track the end result of a function's effort instead of the intermediate steps, which simplifies set up of the tracking system.
- Allow managers to set standards based on the performance of a very effective employee. The standards will then be attainable and enhance performance of all employees.

- When a number of employees are selecting from an incoming queue, the manager must ensure individuals are taking the next task or call, or that the queue is divided arbitrarily by terminal digit. This allows tasks to be assigned randomly, enabling weekly or monthly trends to develop as a fairer performance gauge than daily variances.
- Models must be simple and employees comfortable with a model's basic concepts. For example, a point system could be employed based on a minute of expected effort equaling a point. If the manager feels the average outbound collection call should take five minutes, the employee will earn five points for each completed outbound call.

Coaching is the secret to a successful employee performance tracking system. Supervisors must dedicate at least 15 minutes each day to individual performance discussions, and ensure these sessions are conducted weekly with all employees. Employees who are performing above the performance standard should receive immediate and equivalent recognition through financial incentives and/or perks, which do not have to be considerable. For example, $20 gas cards or "sunshine passes" allowing employees to shorten their day by a few hours often have as much impact as a monthly bonus of hundreds of dollars.

Employees performing below the expected standard should receive performance coaching, such as a supervisor or well-performing employee shadowing and coaching the employee. If performance levels are not corrected, appropriate consequences are the necessary next step. Although coaching sessions should be completed privately, posting performance results creates pressure to perform better and recognizes high performance. Conduct coaching classes for the entire management team to reinforce consistency, supplementing classroom activities with one-on-one sessions with each first-line supervisor.

The rewards for effectively managing operational performance can be significant. Even very efficient operations can improve productivity – sometimes by as much as 15 percent – with greater opportunity for increased productivity for less efficient operations.

Initiative Three: Adopt Technologies to Reduce Operating Expenses

With heightened regulatory concerns, processes will only become more complex. Therefore, mortgage bankers should search out technologies to automate manual steps. A new combination of two known technologies accomplishes this goal.

Optical Character Recognition (OCR) can identify hundreds of mortgage related documents, extracting most any information selected. OCR technology is now powerful enough to "read" the document, and when certain key words are discovered in certain known sequences, automatically identify the documents.

Marrying OCR to advanced workflow technologies results in a very powerful tool that automates any "stare and compare" operation. For example, in the origination process, supporting documents are requested from the customer before the loan is sent to underwriting. Those documents need to be audited to ensure they are the correct document and that they contain the information required by the underwriter.

If this technology is applied, then the present manual audit would be converted to this largely automated process:

1. Documents are received and scanned by the OCR engine. On the first pass, the documents are identified and on the second pass the documents are scanned for certain data elements, which are then stored for the upcoming workflow process steps.
2. Any documents that cannot be identified or any required data element not found on an identified document are queued up for human examination. If OCR is successful, then no human effort is needed. The software queues up the exceptions with the information necessary to resolve the issue clearly displayed on the same screen.
3. Documents are identified for the imaging repository, which eliminates another manual process – or the need for barcodes combined with a manual process for any document without barcodes. The extracted data elements can be used to audit the documents prior to underwriting. For example, if a homeowner's insurance policy must be effective through the projected closing date, the workflow program can complete that audit step without human involvement by comparing the insurance policy extracted data to the origination system.
4. The exceptions are automatically placed into a processor's work queue, which presents these exceptions without interruption.
5. Using a concept called critical documents, some workflow programs also have the ability to ensure all required documents have been returned by the customer. If they are not, the processor can follow up on the missing documents or send a reminder email.

6. The OCR engine can select the final version of a document, which is not only important for underwriting but also for closing and servicing functions.

7. The same technology can automate pre- and post-closing document audits, doubling the productivity of closers.

8. By automating the post-closing audit and thereby tightening controls, servicers can eliminate the need to have a new loan boarding audit for the servicing operation.

9. This technology can also be used to automate portions of the wholesale and correspondent channels.

Combining OCR and workflow technologies promises to be a game changer for the mortgage origination process. In one consultative study, an organization with 6,000 loan originations per month would save more than $6.5 million dollars per year, after costs and investments. Similar studies indicate a lending organization originating as few as 8,000 loans per year is the break-even origination volume for this product.

If volumes are high enough, there are also several servicing areas that can benefit from the combination of OCR and workflow technologies. For a large servicer with a servicing portfolio of more than 100,000 loans, functions such loss mitigation, releases, ACH processing, customer correspondence and emails are well suited for automation.

Initiative Four: Examine the Cost of Duplicate Operations and Reviews

Audit recommendations are seldom appraised by cost, but instead are judged by how thoroughly they catch potential risks. Organizations can find a more balanced, cost-effective approach to quality control audits.
As a result of the Dodd-Frank Act and the CFPB, mortgage lenders have greatly expanded compliance, legal and internal audit operations – each with its own set of reviews, sometimes conflicting findings and individual management teams, which are expensive to maintain. The mortgage banking industry must find ways to reduce the cost of compliance, including extensive quality control checks that have been built into operations, which slow down processes, lessen customer satisfaction and may indeed be unnecessary. There are several avenues to explore.

First, conduct a study to determine what control functions, as well as their audits and quality control checks, are costing your operation. The financial investment will likely be substantial, especially for organizations conducting 100 percent quality control reviews. If your operation is doing so, examine the error rate to determine if this review is cost-effective. If the error rate is not excessive or does not have substantial financial risk, consider reducing the quality control check from 100 percent to one based on statistically sound random sampling. With a feedback mechanism, performance can be improved at far less cost.

Simply conducting the quality control audit will not change employee behaviors. It is often more effective to build in a system with positive and negative feedback than to continue correcting errors. More specifically, if an employee is error-free for a predetermined timeframe, pay a reward in the same way as when managing employee performance. If their error level is unacceptable, there should be consequences. Consider incorporating quality control feedback into the employee performance model.

In the last few years, legal and compliance functions have become separate functions with separate management teams in many mortgage companies. These functions could also be also combined to improve process discipline.

The CFPB is most likely here to stay, as regulatory controls are seldom removed once they are in place. Organizations need to adopt the CFPB mindset and build automated document and data audit processes, such as OCR/workflow technologies, to make the servicing transfer process more seamless.

Initiative Five: Ensure Policies are Consumer-Friendly

Over the last few years, there's been an ironic twist. As regulators have published voluminous regulations and levied huge fines in the name of consumer protection, mortgage operations have reacted by tightening procedures and double-checking routine actions. This has slowed response times for the same consumers we are all trying to protect.

Lending organizations must refocus their attention away from default and compliance, and toward a sound customer experience. Long-term, our industry will survive only to the extent it serves our customers' needs. Therefore, lenders should examine existing processes, making sure all steps are necessary and not duplicative – an examination that is especially valuable for mortgage loan originations. Many organizations have become so concerned about regulatory violations or investor loan repurchase demands that they are checking documents three or four times. Not only is this inefficient and costly, but it lengthens the time between application, answer and closing.

In addition, many of our industry's processes are obtuse. For example, when customers' payments go up, they just want to know why – and 99 percent of the time the increase is due to property tax or insurance disbursement increases. Yet, the escrow analysis disclosure is so complex that the customer cannot understand it, nor can our representatives easily explain it. Mortgage bankers needs to anticipate consumers' questions by clearly giving the reasons for any payment increase within that disclosure. As an industry, we need to fight for clarity for our customers.

When a customer currently calls or emails with an issue and the issue is beyond a simple inquiry, the contact person is most often merely an "order taker." Restructuring customer operations so that customer service representatives (CSRs) can solve problems would enhance the customer experience and differentiate a company's servicing operation. CSRs would need to be provided time away from calls to conduct the necessary research to solve the issues they encounter, including allowing overtime, if necessary. Due to staffing reallocation, this change will likely not require many additional staffing hours.

A Return to Economic Viability

The mortgage industry has survived the financial crisis – a cataclysmic event not only for consumers but for the industry as well. Default processes broke down under the unanticipated volumes and loss mitigation was converted from a second chance for short-term issues to complex long-term solutions. Operations which had been running smoothly prior to the crisis became ineffective in this new world.

Perhaps of greater consequence, mortgage servicing's public image changed from one of a benign service provider to a threat to family happiness and financial well-being. Now that the mortgage industry has stabilized and we are no longer under siege due to catastrophic default levels, the challenge is to adjust operating models to reflect this change. As an industry, we must re-examine – and possibly undo – the now-excessive controls caused by the financial crisis to gain back our economic viability.

About the Author

As vice president of product management for Financial & Risk Management Solutions at Fiserv, Inc., Jay Coomes directs the product strategy for Enterprise Content Management products and process automation solutions from Fiserv. Coomes has more than 30 years of experience in software product development, process automation and solution design. He has a patent pending on an automation of the loan completion process, now known as LoanComplete™ from Fiserv, which improves the processing time and quality of loan documentation, and facilitates the adherence to regulatory requirements. In 2014, Coomes was the recipient of the PROGRESS in Lending Top Innovation Award as a leader in innovation for his work on LoanComplete.

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