Executive Briefing Paper

A Consolidated Approach to Loan Servicing Optimizes Technology Across Loan Products

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The Consolidated Approach to Lending

Today's "survival of the fittest" environment has lenders evaluating ways to refine processes throughout the enterprise. Duplicating effort across multiple products and managing the expense of supporting and/or integrating disparate platforms hurts the organization in terms of profitability, operational efficiency, and compliance and risk mitigation–ultimately jeopardizing borrower relationships.

In many cases, the technology landscape in the financial services industry includes redundant, inefficient and incompatible systems that are increasingly costly to maintain.

Although the servicing system you have today might work, the productivity improvements, potential FTE redeployments and ability to support a more diverse loan portfolio resulting from consolidating loans can dramatically offset the cost of converting to a newer technology.

Because past focus has been on vertically siloed products and business lines–some with patchwork interfaces–some institutions have not addressed upgrading or integrating their servicing operations. As a result, they are unable to compete with the flexibility, round-the-clock availability and operating efficiency that the "new normal" of the banking industry demands.

It is time to consider handling mortgage, home equity and other consumer loans on one platform. This approach to managing the back office can help forward-thinking organizations reap the full benefit offered by an integrated solution that streamlines processes, allows more complete access to borrower data and enhances the customer experience.

Not addressing IT budgets and technology decisions holistically could adversely affect the borrower experience and could even impact profit margins.

Disparate Servicing Platforms Cause Operational Inefficiencies

The industry's proliferation of different technology systems and standards was the result of an older business model that centered on quasi-autonomous business lines and the absence of enterprise-level oversight. Organizations developed or purchased systems for product-specific purposes, and they were built on a variety of operating systems, data standards and process formats.

Fast forward from that environment to a point several years ago when lending institutions began to realize that these systems could not share data or functionality and that millions of dollars were being spent on overlapping systems.

Lenders that use different loan servicing systems to support different consumer loan products – mortgages, lines of credit and installment loans – are wasting internal resources. Using multiple platforms inhibits the efficient use of data and makes enterprise-wide customer views more difficult and costly. Being able to post a payment quickly and accurately no longer distinguishes an institution. The information associated with the payment has become more important than the payment itself. The loan servicer still processes transactions, but now must also be an information broker to survive.

How effectively an institution can capture, store, find, associate, analyze and deliver financial data is what will provide its strategic differentiation, and hence its value, to customers. This transformation places enormous demands on an institution's technology, requiring it to be integrated, customer-focused and enterprise-wide, as opposed to siloed, product-focused and department-based.

Challenges Posed by Disparate Servicing Verticals

Many institutions have grown accustomed to having one system for first lien mortgages, another system for second liens, yet another for lines of credit secured by real estate, and possibly even a fourth system to accommodate other installment loan products. A stratified operating environment may also have separate systems to help manage collections and investor accounting.

Having multiple platforms can challenge executives charged with trying to rein in costs, sustain regulatory compliance, ensure data integrity and drive operational excellence. Since those systems likely use entirely different processes and procedures, the ability to have a collaborative lending strategy on an enterprise scale is severely limited. A multiple-platform approach also impacts the borrower experience because inefficient processing dashes expectations for real-time, right-now updates and customer service. Furthermore, since each system requires maintenance and support, there is significant – and costly – duplication of effort, driving up the cost of servicing and wasting manpower.

Developing, enhancing and maintaining efficient processes can be severely challenging for organizations using multiple servicing platforms.

- Chief Operating Officer – Monitoring compliance metrics and generating the necessary audit reports from multiple software applications is labor intensive and cost prohibitive. The effort required to provide enterprise-level oversight can divert attention away from more beneficial duties, such as fine tuning day-to-day performance that promotes both efficiency and profitability.
- Chief Information Officer – Managing data integrity throughout the organization can be problematic. Each servicing system has its own architecture, making the infrastructure and networks extremely difficult to manage and maintain. Disparate systems may not link together, making the validation and certification of customer data exponentially more challenging.
- Chief Compliance or Risk Officer – There is heightened risk for the organization when regulatory changes must be duplicated across verticals, making compliance initiatives much more difficult to implement and manage. Identifying potential vulnerability and risk, and developing corrective resolution plans, can put unwarranted stress on staff resources. Maintaining transparency while successfully addressing compliance initiatives can further challenge the organization.

Efficiencies Gained from an Enterprise View of the Customer

With current market conditions, it is increasingly important for servicers to change their approach so they can fully understand a customer's loan relationships. Lending operations that cannot provide a complete and real-time snapshot of the customer are severely limited. They lack the knowledge of that borrower's total credit exposure to their institution. Without a consolidated servicing back office, they also are unable to effectively manage the loans associated with each portfolio.

Adopting a consolidated strategy gives servicers a more complete picture than knowing just the current balance of a loan. It also gives the lender an understanding of the status of second liens, how much total debt the customer has, how a delinquent mortgage is affecting credit and what revenue opportunities exist.

Servicers certainly need to be nimble when it comes to product and process, but it doesn't stop there. Being transparent will become foundational to how servicers relate to customers as well as to investors and regulators. Transparency not only enables insight into servicing processes and practices, but it also means being able to pass along transactional data to those that request it, when and in the format it is required.

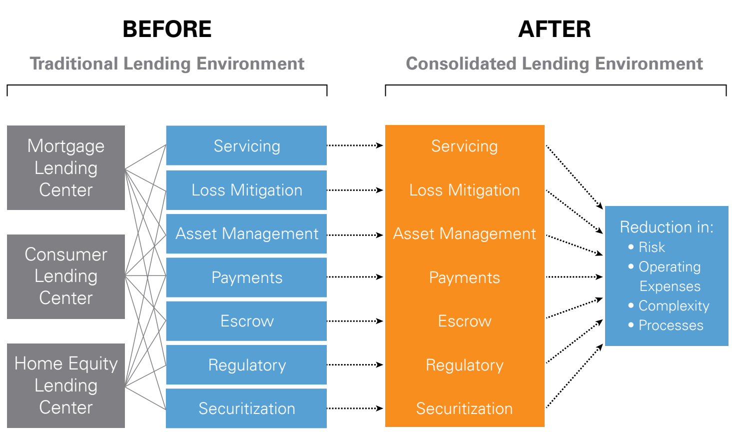
Reporting and analyzing customer data is becoming the norm for servicers, regardless of portfolio mix. Immediate access to borrower information, account transactions and investor data is critical to institutions positioning themselves as industry leaders. Customer service personnel will be better trained (and better scripted) to explain fees, loan histories and rate changes. Investor reporting personnel will be versed in technology that pushes data to investors instead of simply sending standard reports. Collectors will become better at counseling borrowers about sustainable loss mitigation agreements.

In fact, productive default management and loss mitigation efforts begin with good data. Lenders that can access all the data at hand are best prepared to prevent a late payment from snowballing into an unpreventable default and to protect their portfolios and balance sheets against insurmountable loss. By linking the borrower in the back office, lenders have important analytical information in one place and are better positioned to freeze credit lines or lower limits based on changes in the borrower's financial status and behavior across all loan relationships.

The Customer-Centric Perspective

Having a customer-centric perspective is critical in terms of both profitability and borrower experience and plays out with essential differences, depending on a financial institution's servicing environment.

Servicing Operation Consolidation



Consolidated servicing eliminates redundancies and supports a more diverse lending portfolio.

Multi-platform Scenario

In this scenario, a borrower might have a mortgage loan and a boat loan with the financial institution. Because the two loans are serviced on separate platforms, customer data is stored two places. If the platforms do not communicate with each other, customer data-sharing is minimal, if not impossible. Each platform generates its own loan information, and the institution is faced with the time- and resource-consuming task of synchronizing and delivering the data in a timely manner. If the customer adds a revolving credit instrument, yet another software application may enter the picture, and that system may not be able to “see” all the borrower’s current loan transactions.

Consolidated Scenario

In this scenario, the institution utilizes a single platform such as LoanServ™ from Fiserv to administer the borrower’s mortgage, boat and revolving-credit loans. The customer information is stored on one system, eliminating the need to share data between different platforms. This eliminates data integrity issues, and as cross-sell opportunities materialize, the lender has a holistic snapshot of the borrower’s entire portfolio to assist in making prudent short- and long-term decisions.

The User Perspective

Operational efficiency is directly tied to how servicing staff is able to utilize technology resources.

Multi-Platform Scenario

For institutions utilizing different platforms for different loan products, there is no common look and feel between systems. The Consumer Loan Department may have to deal with one platform for equity loans and another for mortgage loans. The user experience suffers because staff members must create work-arounds or use manual processes to manage transactions.

Consolidated Scenario

Browser-based platforms leverage the Internet as a single point of access to real-time data and enable a lender to access information from virtually any application across full- or self-service channels or from third parties. This flexibility provides the framework to integrate ancillary interfaces and applications so that they work as one interoperable system instead of as inconvenient wrap-arounds. By consolidating all retail loans, an institution derives benefits from process, cost-to-service, and efficiency perspectives. It is able to standardize processes and procedures, and staff is trained once and empowered to work efficiently between lending verticals.

In one case, a full-service bank with a mortgage banking focus recognized the opportunity to improve efficiency and drive down cost using LoanServ, the Fiserv solution that helps eliminate back-office redundancies. Prior to conversion, the bank supported its first-mortgage servicing operation within a different division from its home equity operation. By converting its second-mortgage portfolio to LoanServ, the bank realized not only an 18 percent reduction in loan servicing FTEs, but also a reduction in resources outside of the Loan Servicing department charged with supporting overall operations such as IT and Accounting.

The consolidation to one servicing platform also paved the way for consolidation of vendors in areas such as billing statement, lockbox, insurance and tax service outsourcing, resulting in a 15 percent reduction in cost to service almost immediately after conversion. In addition, the automation available within the platform’s default management functionality has allowed the bank to dedicate more of its resources to working with customers to find best-option solutions. As a result, the bank recognizes a default rate that ranks consistently below the industry average.

The Cost of Change Versus the Cost of Not Changing

Organizations looking to improve their lending operations essentially have three options:

1. Do nothing – continue to maintain existing technology with limited ability to add functionality.
2. Attempt to build an in-house solution with possible staff additions and increased technology costs.
3. Invest in a platform that provides an efficient, consolidated technology solution for all loan products.

Many institutions have grown accustomed to supporting outdated technology or a stratified operating environment. But cost and risk pressures prevent others from updating technology, even though the risk of failure increases and the cost to maintain the status quo escalates rapidly. This situation may jeopardize the entire lending infrastructure.

For example, having to apply regulatory changes to multiple technology systems is laden with risk. Applying regulatory changes to a consolidated platform provides consistent compliance across product lines, with just one source of data to maintain. Financial institutions opting to retain multiple software systems may regret that decision down the road. Policy, process and procedure costs will continue to stress budgets, regulatory compliance initiatives and personnel. On the other hand, proprietary systems developed and supported in-house can be equally expensive and pose the same staff and compliance challenges.

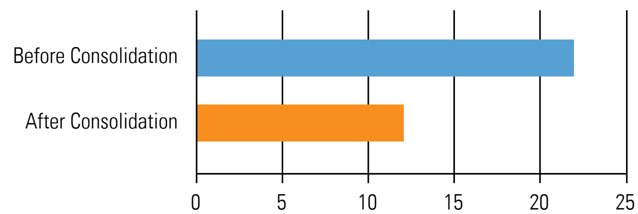
Regardless of the option, it is important to understand that there is more to consider than the hard costs. One full-service, regional bank with 60 branch offices and loan centers, replaced multiple servicing systems with LoanServ to manage both its mortgage and consumer loans. Prior to the conversion, the bank was handling first-mortgage servicing and secondary market securitization on one system and HELOCs and consumer loans on in-house platforms. Using this combination of software limited which products the bank could offer. For instance, prior to using LoanServ, the bank could not offer rate locks and credit card access on HELOCs. The consumer lending systems just could not provide those capabilities. By consolidating its consumer and mortgage loans, the bank was able to re-deploy FTEs to other areas of the bank and is laying the groundwork for future growth.

Support for Multiple Loan Types Provides a Competitive Edge

Technology that separates loans into distinct silos can be a barrier to driving down operational costs. With today's fierce competition, deploying a more efficient servicing software strategy can mean the difference between growing the portfolio and just surviving. In fact, Fiserv has seen several financial institutions reduce up to 60 percent of their loan servicing-related software by replacing disparate technology with a consolidated servicing solution.

One very large servicer had a vision several years ago to consolidate its debt utility technology on a system that could support all mortgage and consumer loans. The first step was migrating several million mortgage loans onto LoanServ. After this initial migration, the company purchased and converted additional portfolios consisting of another million-plus mortgage and home equity lines. Today, it supports all mortgage, consumer and outsourced loans on the Fiserv servicing solution.

Consolidation Reduces the Number of Ancillary Systems Needed



A large servicer was able to retire 45 percent of the interfaces, databases and specialized software being used in its back-office operation by consolidating loans onto LoanServ.

Because the system enables one workflow and one workforce for all its retail loan portfolios, the institution was able to reduce its cost of servicing by 37 percent and increased loans serviced per FTE by 36 percent. The integrated default management functionality also enabled the institution to reduce the overall timeline to qualify borrowers and set them up for loan modifications. By using the system's embedded workflow automation, the servicer is handling 1,200 files a day and has cut the work time per file by 50 percent.

Consolidated servicing provides a distinct advantage and allows you to do much more than "maintain the current situation." No matter what loan products look like in the future or how many loans are being serviced, forward-thinking servicers can implement a consolidated model that will reduce costs, increase productivity and create opportunity.

For the latest information on loan servicing, please visit www.lendingsolutions.fiserv.com.

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