EMBRACE THE MORTGAGE DATA REVOLUTION

A major shift away from a document centered assembly line scares some players in the industry.

By Roger Hull

The mortgage industry is going through a revolution – a shift from document-centered to data-focused mortgage lending. Lenders demand a new way to manage the mortgage workflow. Moving a paper or imaged loan file from one desk to another – whether physically or virtually – is an outdated approach. Originators are caught in a dilemma of needing to streamline origination processes at the same time they are trying to mitigate potential loan repurchase risks. To reduce repurchase risks, many originators have increased the loan file quality checking that they perform at various stages of the loan fulfillment process. Almost all of the quality checking done on a loan file is performed manually contributing to already bloated process costs and cycle time. Meanwhile, mortgage investors are seeking more visibility to the loan much earlier on in the origination process to enable a more effective assessment of loan risk and pricing. Unfortunately, today's paper and image-based loan files make this very difficult.

It is imperative that technology vendors serving the mortgage industry build their systems around the underlying loan file data to create a more transparent loan file that can be electronically interrogated. The capability to perform more automated loan quality checking ensures higher degree of loan file quality checking while concurrently lower origination costs and process cycle time.

Mortgage is like Music

Making a major shift away from a document-centered assembly line scares some players in the industry. While there is a natural resistance to change, the recent past – default, foreclosure, dried up secondary market and major industry scrutiny by legislators makes a great case, if not necessitates, all parties involved in the mortgage process to embrace industry improvements. The music industry, for example, struggled (and continues to struggle) with a similar revolution. When MP3s and digital downloading first became available in the late 1990's, the music industry reacted with fear and the threat of litigation.

What they didn't understand was that buyers had already discovered a better way of getting their music. Instead of waiting to hear a song on the radio then purchasing entire albums to see if the rest of the songs appealed to them, buyers could now preview on demand or inspect songs and then purchase only the songs they wanted a la carte.

Apple's iTunes saw the potential first and quickly became the largest music store in the world. Amazon and other music stores quickly followed suite. The result? The digital music and iTunes produced a much more streamlined process for consuming music. While there was an initial dip in purchases, the music industry is finally adjusting and sales are reflecting the new landscape. Next year, digital music sales are expected to top physical CD sales for the first time.

Moving to a truly data-centric mortgage workflow is our industry's digital music revolution. Already, lenders are demanding more automated access to data within the documents not just the documents themselves; similar to consumers wanting more access to songs within a CD not just the whole CD. Now, the challenge is for technology vendors to create systems that take full advantage of a data-driven mortgage industry to enable more streamlined processes and more transparent mortgages.

Doc-Driven Processes

The impact of document-driven processes is costly. Today's mortgage industry relies on an ineffective approach that does not scale well, costs too much, takes too long and does not provide enough transparency. Even so-called eMortgages are doc-driven!

In the loan lifecycle, you have different functional silos – origination, secondary marketing, servicing and silos within silos (origination, processing, underwriting, closing, etc.)– working on a loan file, seeing only their small portion. It starts with origination: taking the application, pulling credit and running prequalification through an automated underwriting engine.

Next, the loan enters processing, where staff evaluates the application and AU findings, selects and orders third-party products (property valuation, verification of income and employment, title,, etc.), obtain the third party provider and borrower documents, assemble the loan file, manually perform quality checking of the documents and the data within, and enter all of this data into the loan origination system (LOS). This can take anywhere from 10 to 70 days, depending on staffing, caseloads and vendor performance.

Next the underwriter reviews the loan file and evaluates borrower and collateral risk. If the file needs additional information the underwriter will condition the file accordingly. If the file is in order, the underwriter clears final conditions and moves the file to the next stage. This can takes up to 10 days or more.

Finally, the loan file moves to the closer, who once again evaluates the loan file, orders closing docs and requests funding. Once closed, the file moves into post-closing, where another set of staff evaluates the loan file and performs the quality control check and prepares for shipping.

The entire loan fulfillment process takes anywhere from 17 to 150 days and costs range from $1,000 to $2,500.

While this factory-style workflow logically made sense in the days of paper loan files, when a document needed to clear one desk before moving down the assembly line to the next desk, the result is that the end purchaser – the investor – cannot truly evaluate a loan until after it has reached underwriting, and in some cases not until after closing. Originators rely on investor funds, and spending more time on ensuring salability reduces the volume that can be handled.

Today's data-driven marketplace demands a more transparent and efficient process.

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A Simpler Workflow

The beauty of machine interpretable data is its readability by any system. Once an application is entered into a lender's systems, all data should be instantaneously available at every step of the loan process. Underwriters should be able to evaluate the AU results and apply risk decisions. Investors should be able to automatically scan for adherence to their guidelines and evaluate risk and pricing. All of this happens while the closing department is pulling the loan documents.

The key is to use automated decisioning to streamline or eliminate the manual evaluations and quality checking at each step of the mortgage's journey to closing. Mortgage technology should be able to automatically evaluate data within the context of business rules, thresholds and other data to render a decision.

Once a decision is made, the system should be able to automatically take one or more of several actions: clear the check or condition, create a new task, request or obtains more data (i.e. additional property valuation or income verification) or notify someone of the decision.

A Rational Approach

Mortgage technology platforms of the future will benefit from following architectural models leveraged in other industries, for example the operating system and application models perfected by Apple and Windows. Think of the iPhone or iPad. A consumer purchases their phone or tablet, and the system is run by the Apple iOS. Users can then add applications (apps) that perform the functions they most need or want.

Some of these apps are provided by Apple itself, others are third-party apps that provide a best-in-class function. Since each lender has different technology needs, the mortgage operating system can utilize as many –or as few – apps as needed to enhance productivity.

Now imagine this applied to the mortgage industry. A single operating system – a "mortgage operating system" or MOS that provides a data-driven electronic loan file to all mortgage applications and acts as a "traffic cop" between applications to orchestrate transactions. The MOS would support both proprietary apps and nonproprietary apps in the same fashion as Apple or Microsoft Windows.

The operating system provides the loan data into all the other components simultaneously. If a single app, such as point of sale portal or document app, no longer meets the lender's needs, the company can remove or replace just that app. The underlying operating system can still push data from the database into a new system and all of the existing apps without requiring a complete rip and replace.

And of course, what drove the move from CDs to digital music was choice. Instead of buying an album for 15 songs for the three or four really good ones, consumers now grab only those songs they need.

The mortgage industry should be the same. Each lender, while sharing some similarities with its peers, has a unique workflow, distinct market and personalized technology needs. A data-driven system opens up the ability to select only those apps needed to truly improve efficiency instead of taking an entire system prepackaged to the industry average.

Is this type of system possible today? Yes

The hardest piece of the puzzle is shifting from a document-centric loan file to a hybrid data and document electronic loan file format. MISMO has helped pave the way with digital mortgage field standards. Next lenders need to select the technology platforms that can effectively leverage a data driven approach to streamline mortgage processes and increase transparency. Leveraging an MOS to manage the new hybrid, data-driven electronic loan file and orchestrate transactions enables lenders to leverage existing technology assets while still getting the benefits of a data driven approach. The MOS can be "appended" to existing LOS, Secondary and Servicing platforms to turbo charge performance.

By the start of 2012, lenders will have options for utilizing complete Mortgage Operating System from application to servicing.

Asking Questions

As lenders evaluate their options for new mortgage platforms ask the following questions:

<<< Will this system enable me to streamline my process performance, reduce risk and increase transparency?

<<< Will it require a complete "rip out and replace" of my existing systems or can it be appended to my existing platforms?

<<< How much time and money can I save using a data-driven system?

<<< What applications do I truly need to be efficient as possible?

<<< Will the vendor listen to my needs and configure innovative solutions to my problems?

The days of document-driven technology are coming to a close. Embrace the freedom data provides and start looking at your mortgage technology needs with clear eyes. Don't accept the standard box. Select the system that provides you with the best combination of efficiency, accuracy and cost with minimal headache and vendor management. ❖

About The Author

Roger Hull is vice president of Genpact Mortgage Services and manages the company's Quantum Mortgage Technology platform. The Quantum platform helps originators and lenders to automate and streamline major elements of the loan origination process, resulting in a shorter loan lifecycle and a more transparent mortgage asset. For more information, email Roger at roger.hull@genpact.com or visit www.genpact.com.