Process Improvement

Lenders Can Cash In

A lot of factors are driving up the cost to originate a loan. Can anything be done to reverse this trend?

By Tony Garritano

It's not all gloom and doom. Sure, lenders face plummeting profitability levels from falling refinances, rising origination costs and increased competition. However, cost management strategies can be employed to reduce expenses.

"Everybody is trying to reduce hands-on time," said Jim Pippin, Director of Product Development at National MI. "They are trying to do electronic feeds so there are not as many manual imports. You also need to find specialty vendors to handle certain tasks that they specialize in.

"In this market, leads falling out of the pipeline is especially costly. There is a lot of money spent there and when the lead doesn't close because the prospect is always shopping, that costs the lender a lot."

"When lenders introduce technology they just duplicate their existing process instead of changing the process or eliminating steps. Lenders have to be careful to grab technology that will genuinely help their business," noted Pippin.

So, where are the biggest pockets of inefficiency for lenders and how can they address these areas? "We have a lender that had 5 to 6 different checklists that had to be completed manually. We came in, used technology and automated 90% of that work," said Matt Woolley, SVP of Sales at LoanLogics.

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Jim Pippin is director of product development at National Mortgage Insurance Corporation (National MI), a subsidiary of NMI Holdings, Inc. (NASDAQ: NMIH). National MI is a private mortgage insurer based in Emeryville, CA. Pippin is involved in all facets of product development and launch, including design, pricing, operations and sales training. Prior to National MI, Pippin held senior positions at Genworth, Bank of America, Capital One and General Electric, where he earned a Six Sigma Black Belt. He holds a B.S. in Industrial Engineering from North Carolina State and an MBA in Business Administration from Wake Forest University.

He sees Quicken as an example of a lender that does a great job managing cost. "Quicken runs a very tight shop. They don't have many errors. They use technology to manage their process and all the lenders are trying to compete with them.

Woolley leads the National Sales team and is responsible for establishing and executing LoanLogics sales strategies and managing the sales team activities related to the all LoanLogics products, including the mortgage industry's first Enterprise Loan Quality Management and Performance Analytics platform. He has held a variety of positions in sales and management in the mortgage technology and financial services industries with clients ranging from Government agencies, top 5 lenders, MI companies, as well as lenders, banks, and credit unions of all sizes across the country.

He warns that while technology can help lenders reduce cost, they have to be smart about their technology decisions. "Lenders need to avoid the shinny object syndrome. Lenders shouldn't get caught because not every technology can provide the level of efficiency promised. Second, you have to have the right culture. If you are trying to hold on to old manual processes you won't succeed. You have to be open to technology and process change."

The company recently introduced HMDA Audit, a new module for the company's LoanHD Loan Quality Management platform that helps lenders comply with current and new reporting requirements under the Home Mortgage Disclosure Act (HMDA) taking effect January 2018.

Under HMDA, lenders must collect and report demographic and geolocation data for all mortgage transactions and pre-approvals, whether the loans were funded or not. HMDA Audit helps lenders ensure that all HMDA data associated with originated and non-originated loans is accurate and validated for compliance. It also provides lenders with a comprehensive audit trail, which can be readily accessed for use with regulators.

Patrick Kelly, EVP, National Sales at Informative Research, advises lenders to embrace as many fixed-cost solutions as possible. "There are tools that can drive the beginning process to help you qualify borrowers. You also want fixed pricing strategies for things like 4506-T, etc. You want to move to a fixed cost model so you don't have wasteful spend.

"For example, there are pricing strategies that can be used. You need to track the borrowers that will stick and not just every borrower. In addition, lenders can form closer relationships with builders and others. Lenders often buy technology that they don't use or it doesn't fit into their revenue model," added Kelly.

With over 45 years of experience in the mortgage industry, Kelly's expertise covers all aspects of the mortgage industry and process, from appraisal and operations to loan production and support. Having been with Informative Research for over three years, he's played a critical role in building and managing their current national sales team.

And going forward, Kelly doesn't see lending getting much more affordable unless lenders do a better job automating. "The Bureaus will continue to raise their price for credit and the other sources will raise their prices, as well. If you can use technology to automate these services you can save some money, but I think you need a lot to happen before you'll see overall cost go down."

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"If people get more comfortable with the regulation, things will calm down," added Jim Pippin of National MI. "Some lenders have the checker checking the checker right now. Also, lenders will get more comfortable automating as times goes by. It will happen."

"Rules-based technology will reduce cost," concluded Matt Wooley of LoanLogics. "Through automation underwiters can do eight or more loans a day. There is an opportunity for the cost to originate a loan to come down, but there are still a large number of lenders that are not willing to change how they do things and really automate. Some have been burned by failed implementations, but until they embrace automation and process change the cost to originate will increase." ❖

Tony Garritano is chairman and founder at PROGRESS in Lending Association. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker in the mortgage technology space. Starting this association was the next step for someone like Tony, who has dedicated his career to providing mortgage executives with the information needed to make informed technology decisions. He can be reached via e-mail at tony@progressinlending.com.