PRODUCING RELIABLE RESULTS

At the end of the day, organizations that want to produce reliable products and services, must identify, measure and report all facets of their operations.

BY REBECCA WALZAK

I started running again. Again, because I used to run every day and competed in numerous races. Everything from 5Ks, which is a 3.1 mile run, to marathons which are 26 miles, 385 yards. While I certainly don't run as fast as I used to, or as far, one thing hasn't changed, the need to track my times in order to find out how to make myself better. If you are a runner or have ever known one, you know that this is one thing we have in common. We know every data point about our running process.

We can tell you how many miles we run a day, a week, a month or a year. We can tell you our average minutes per mile, our best times and even how many seconds we took off our time for every race we run. All of this data is important because it helps us get better, as well as, better prepare for the next race. We use our last achievement as the benchmark for the next and we are obsessed with making sure we have a reliable methodology for meeting those times.

More than anything we want to know what to expect when we sign up for the next race or focus on beating our own benchmark.

While those of you who are not runners may think those of us that are as overly focused on this need to develop a high level of reliability in our results. However, we are not alone. More and more companies, especially those that provide direct consumer services have the same passion. Companies that are in the business of providing call center support are a perfect example. These companies, such as the country's most outstanding global "customer experience management" provider, track numerous data points on an on-going basis. Each of these data points has an acceptable level of performance which must be met on a quarterly basis. These results then become a critical part of their ability to attract new clients. The reliability of the company to continuously provide service at the expected level is what allows them to charge a higher price for their services. In other words, reliability generates profitability.

Direct customer contact services are not the only entities that profit from the utilization of a "reliable process" approach. This concept is observable in manufacturing as well. In fact, most of the people reading this article have more than likely benefitted from it. Think about the products you buy. Clothes, cars, food and just about every other purchase you make. Most people will buy multiple times from the same manufacturer if they are pleased with the product they originally bought. For example, my daughter bought a Volvo over 10 years ago. The car has over 150,000 miles on it and is still the one she takes on long distance drives because she knows it will get her to wherever she is going and back. If fact, she is planning to give it to her son when he starts to drive so that she has excuse to buy another one. This is where reliability really pays off. Why? Although a new Volvo has not yet proven it can perform the same, the confidence built up from the steady performance of her old one is the determining factor in her decision to get another, regardless of the cost.

So what brings about this level of reliability? Is it a special plan or a "secret" approach that some companies have developed? The answer of course is no. It is simply the ability of any company to make sure their operations, the processes which produce their product and/or service are performed consistently. How do they do that you may ask. They do it in the same way a runner manages the consistency of his or her performance. By measuring, benchmarking and comparing.

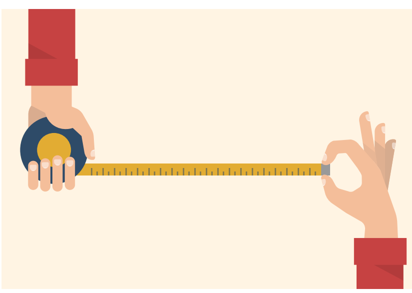
Whether you are originating loans, purchasing them, warehousing them or servicing them, every function within every organization has a process for doing what they do. Much of this process may be technology driven or may depend entirely on human involvement. It doesn't really matter. Where there is an operational process there is an expectation of what will occur as a result of that process. Once that output is identified and the results tracked, you can begin to develop operational reliability.

The term "operational reliability" has become well-known to most industries as the foundation of producing quality products. It means that a company whose products repeatedly perform as expected is much more likely to provide a product that meets your expectations the next time you buy it. In other words, it you contract with the call center company mentioned above, you can expect that your customers will receive the level of service that has been promised and is documented through their data results.

All well and good you say, but I have at least two, if not three customers. There is the consumer who expects strong and consistent support from my production staff as well as providing the information necessary to choose the best loan. There is also the investor who expects that the loans they buy will repay based on the credit risk identified in the credit policies. Both the investor and consumer expect that servicing operations will effectively handle payment processing, the associated activities and, if necessary, manage the foreclosure and REO process. Finally, there is the warehouse lender who expects that the loans will be purchased in a timely manner and will not stagnate on the line or have to be repurchased.

Developing operational reliability.

Most companies have more than one customer with different needs and expectations. However, when we drill down into what each of their differing customers want, the answers are all consistent. All of these customers expect to receive what you have committed to provide. In order to do



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so you must ensure the operational reliability of your entire operation. So based on these expectations, how does one go about The most logical place to begin is with the operations themselves. Start by identifying all the processes that go into “manufacturing” the mortgage loan. Of course the first operation is the contact between the consumer and the loan officer. What is your process for making this happen? When the loan officer meets with a potential customer, what is supposed to be the result? What are the inputs the loan officer provides? What are the expectations from the consumer? What is the final output supposed to be? What actions and/or activities produce that result? Are these expectations documented and measured for at least a sample of loans originated for each loan officer? Once you have collected the data you can use it to identify where the process is working and where it is not. Unfortunately, many times lenders fall prey to the belief that these activities cannot be measured and use this as excuse for not attempting to monitor this piece of the process. However, this can be done. Other industries, such as call centers have done it.

The next set of operational activities include the decision-making and closing steps. Here, the actions taken are many times reviewed by others, such as QC or senior managers. Unfortunately, these measurements are not focused on whether or not the operations we perform actually support the customers’ expectations. For example, let’s look at the credit underwriting guidelines. Nowhere in these guidelines are there statement regarding how the loans produced using them will perform. We recognize that there are many different standards for underwriting, based on the risk appetite of the organization. The operational reliability of this process is making sure those are guidelines are followed and if an exception to them is warranted, it is properly documented and tracked. Tracking exceptions to guidelines is much more important than just having documented them. Imagine if an exception to a guideline occurred 35% of the time and this exception was tracked and found to have no impact on the performance of the loans. What could that mean to the purchaser of those loans? How could that impact the guidelines and streamline the operations of underwriting loans in the future?

Servicing, with its multi-faceted process is ripe for reaping the rewards of operational reliability. Since the mortgage crisis they have been inundated with new consumer requirements, especially when it involves interacting with the borrower. These actions, both on a service provider level and a collection process operational standard could use the operational reliability measurements that have been developed by numerous call center operations. In addition, the CFPB has developed a set of standards that are expected to be met by servicers. Yet how often does any specific servicer meet them? We don't really know because there is no benchmark that covers servicers. Maybe the operational reliability standards set by CFPB are excessive? Maybe with the level that can be reached is lower due to the associated operational processes? How can any servicer demonstrate that the operational reliability of their processes actually meets consumer demand? None of these questions can be answered because unlike other industries, this benchmark is absent.

A recent item in one of the industry trade journals suggested that servicers are at the breaking point; that if they are required to continue to meet all these requirements their operations will implode. The writer of this article basically blamed it on the outdated technology. However, If this is in fact the case, why haven't servicing managers identified operational practices that are failing, measured the failure rate and looked internally to change the operations. Instead many have implement manual reviews that are too little and way too late. These reviews tend to identify specific loan issues rather than the operational failures that produce unreliable results. The results should also provide more than just a dump of data but instead should provide an in-depth understanding of what a process is supposed to produce and the rate it actually produces that result.

Most lenders pay close attention to their warehouse lines but not to measure operational reliability. Instead they are reviewing the number of loans and the days these loans have been on the line in order to avoid interest penalties. Imagine however, if the origination operation was so reliable that the concern over excessive interest payments was not an issue. If the reliability of the product was such that the loans were always purchased timely. Could that result in lower interest rates from the warehouse lender? Now we will never know because the operational focus on this process is on a lack of reliability rather than on how consistently the operation works.

Managing for reliability

The CFPB requires in its statement of expected organizational management, that every company will have a "CMS" or compliance management system. Too frequently organizations see this as a mandate to ensure compliance with regulatory requirements. What it is really saying is that lending companies must have a system in place to ensure that what they say they are providing is what is actually occurring. This involves having data that updates all operational activities on a regular basis and in a meaningful format. If, because the data is not collected or not collected accurately, the results could lack the reliability necessary to make management decisions.

Unfortunately, most senior managers do not have the information they need to make effective decisions. While they get reports on volume, profit and/or problem areas, they have nothing to allow them to reconcile this issues with the overall operation of the organization. Getting a QC report that says a total of 1% of the loans had a "significant default" does nothing to help them understand the underlying operational process that caused the problem, the severity or impact of the issue and the priority of making management decisions on addressing the problem. Most of the time these reports rather than providing assurance to managers, make "mountains out of molehills" and result in wasted time and energy trying to fix random problems. In the desperate attempt to really understand what is going on in their organizations they demand more and more reviews and reports which only succeed in confusing issues and increasing operational costs. Despite the fact that attorneys at recent conferences pushed the need for companies to know more about their organizations than the regulators do this cannot happen if the data collection is focused on the wrong issues or is not statistically sound. In particular managers must know not just such things as production counts or the turn times for handling complaints, but how likely they are to have the issues that are seen as a problem reoccur. This information comes from reliability measurements.

At the end of the day, organizations that want to produce reliable products and services, must identify, measure and report all facets of their operations. This means not only including every activity focused on the outcome, but having a means to measure its effectiveness and analyzing these results in a way that not only makes the operation efficient, but also ensures that the products/services produced are worth the highest possible price. This is what operational reliability is all about. ❖

About The Author

rjbWalzak Consulting, Inc. was founded and is led by Rebecca Walzak, a leader in operational risk management programs in all areas of the consumer lending industry. In addition to consulting experience in mortgage banking, student lending and other types of consumer lending, she has hands on practical experience in these organizations as well as having held numerous positions from top to bottom of the consumer lending industry over the past 25 years.