Mortgage | White Paper

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Putting the Profitability Back into Mortgage Lending

"In business, what's dangerous is not to evolve." For mortgage lenders, this observation by Amazon CEO Jeff Bezos has never been truer than in this age of "permanent volatility" that began in 2008 and shows no sign of subsiding. Yet lenders and borrowers alike are often distrustful of the very practices that could smooth the process for both sides. Innovation may seem daunting in the face of changes in regulatory structures and customer expectations. However, for all its increasing complexity, the mortgage industry still boils down to one thing–the customer experience. Lenders worry about productivity and production costs and compliance; what customers want is excellent service at a fair cost.

Increasingly, inventive dual-shore delivery models are proving the key to providing the excellent customer service that differentiates lenders in a growing herd of competitors. The fact that such models also drive down costs and provide flexibility and scalability is in addition to the improved customer experience and long-term loyalty.

Tried and True May Kill the Business

Industry-wide, customer satisfaction for mortgage servicing and origination ranks near the bottom[1] when compared against other products and services consumers purchase. Paperwork, the bane of lenders and borrowers alike, takes the average lender 44 days to complete[2], at a rate of only 1.7 loans closed per employee per month. It should surprise no one that despite increasing loan volumes over the past few years, the net cost of origination for residential loans is at an all-time high of $7,747[3] and rising, a 230% increase over 2009's cost of $2,345.

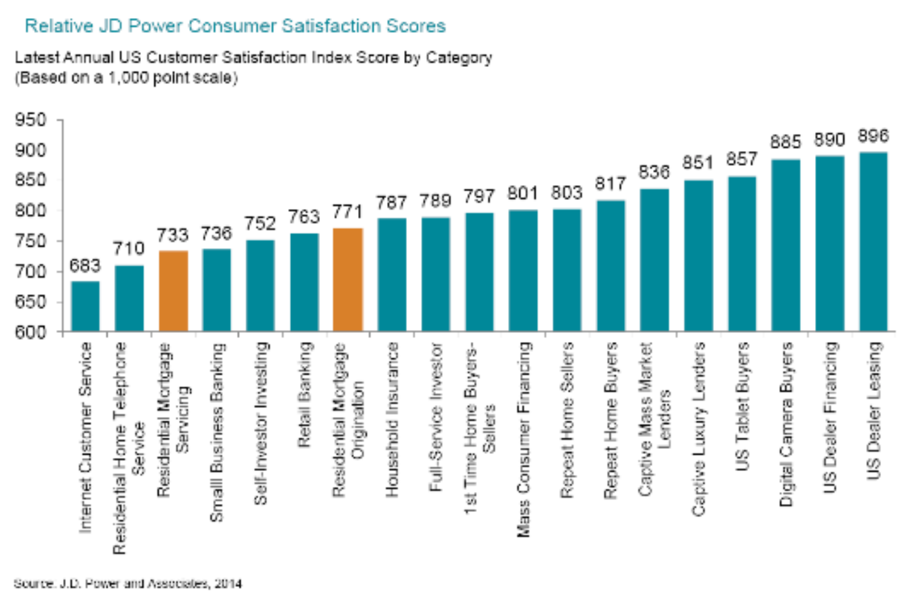

Figure 1: Customer Satisfaction for Mortgage Origination and Servicing

Improving the customer experience is the secret to profitability in mortgage lending. Agile newcomers to the industry know this; their business models are built around the modern consumer's hunger for speed and convenience, and leverage social media and online capabilities to attract and serve them. Outdated perceptions and processes are thus an increasing liability for established players who may have been counting on experience and brand recognition to maintain and expand their market share.

Innovation and Customer Loyalty are Inextricably Tied

Mortgage borrowers know what they want: good interest rates, low closing costs, and fast service. Lenders such as Quicken Loans are building market share by using innovative processes and specialized technologies to streamline the whole procedure. Younger home buyers in particular are driving change[4], expecting the lending process to be as transparent, convenient, and accessible as their other banking transactions. They want to access loan information, get questions answered, and sign documents via mobile devices and self-service portals available from anywhere at any time, a desire shared by an increasing number of older buyers as well. A recent PwC report found that 84% of mortgage customers want an expedited mortgage process of less than four weeks[5]; most want to close in two.

When looking at ways to improve, lenders are, naturally, keenly interested in reducing the costs of sales and service and shortening processing times to add capacity and increase revenue. Yet the challenge for lenders is to *not* design loan origination and servicing processes focused purely on driving down costs and complying with an increasingly dense web of regulatory requirements. Their goal should be to achieve all that while providing a superior customer experience as well. PwC found that 49% of positive lending experiences are driven by the customer's relationship with the loan officer vs. only 10% by the interest rate and costs. This personalized relationship with the lender is what drives brand reputation—and mortgage lenders have few opportunities to rectify the memory of a bad experience caused by the loan processor's mistakes or antiquated processes.

The most customer-centric and effective mortgage processes now combine the best capabilities of advanced technologies, more accurate, less costly loan processing, trained specialists, and efficient use of global structures to keep the loan moving around the clock for faster closing and higher productivity.

Rethinking Processes from the Customer's Perspective

Mortgage lending rests on the three pillars of people, process, and technology. For some lenders, the time and investment required to identify and implement new

1 J.D. Power and Associates Relative Consumer Satisfaction Scores, 2014
2 Ellie Mae Origination Insight Report, May 2016
3 Quarterly Mortgage Bankers Performance Report, Q4 2015, Mortgage Bankers Association, p. 2

4 The Mortgage Industry's Future is Here, National Mortgage Professional, January 29, 2016
5 Learning from the Mortgage Lending Industry, PwC, December 2013

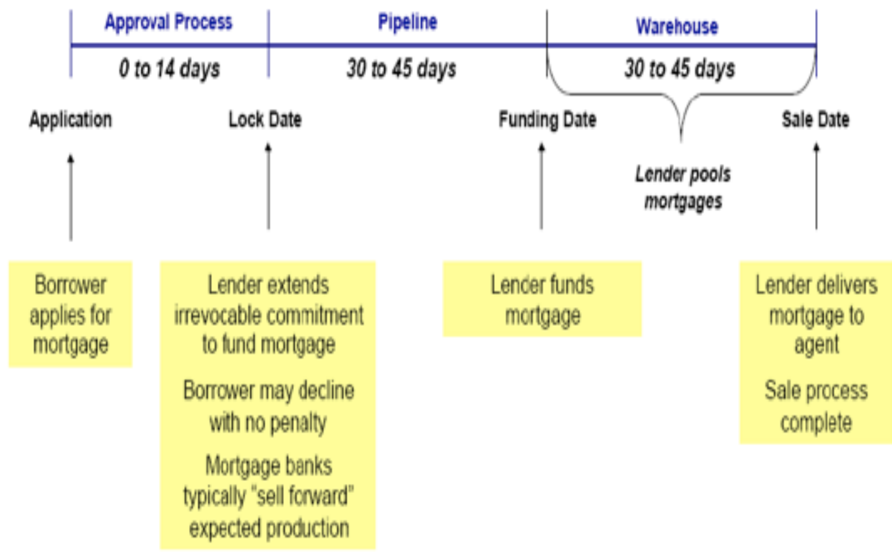

Figure 2: Mortgage Origination Timeline (Industry Average)

technology can put a technology solution out of reach. However, the people and process pillars are much more controllable. Lenders can achieve dramatic process impact without equally dramatic budget impact by taking a new look at how their resources are deployed and the entire end-to-end loan process.

The typical loan origination timeline looks like Figure 2. The process may have as much as 95% inefficiency built in due to a lack of sufficiently skilled staff, too few underwriters, manual workflows, and significant delays waiting for necessary documents to be received and validated from borrowers, appraisers, title companies, and other third parties. Frustration mounts as paperwork bounces from silo to silo for error checking, review, and approval, with personnel reduced to apologetic "let me call you back" responses as they try to track the loan through multiple systems.

Add to all this the major regulatory changes implemented with the TILA RESPA Integrated Disclosure (TRID) rule, the impact of new requirements for disclosing closing delivery requirements to the borrower, and the extended communication between lenders and settlement agents prior to the execution of documents, and you have an even more urgent case for changing the process itself. The increased time and cost of TRID implementation has greatly influenced the customer experience and impacted profitability.

The key to a "win-win" experience for the borrower, the lender, and other constituents is to simplify and streamline the end-to-end cycle. Shortening the loan timeline drives higher customer satisfaction and creates capacity to process more loans per employee, per month. This begins with examining the actual customer experience from the borrower's point of view, a "design thinking" approach that identifies pain points and improvement opportunities through the entire cycle. Such hands-on research and design has led to innovations such as dual-shore "loan factories" that can eliminate silos, keep the loan in continuous motion, and slash costs by 25% or more.

Maximizing Time and Personnel Lifts the Entire Process

Two factors—time and highly-skilled, qualified personnel—are the fundamental differentiators in creating cost-effective, customer-centric loan processes. By keeping a loan in motion 24/7, a lender can turn cycle times—a significant driver of customer complaints—into a positive differentiator by cutting days or weeks from the process. And the growing pool of skilled resources worldwide means lenders are no longer limited to their own overburdened staffs working overtime to keep up. A blended onshore/offshore delivery model built on an integrated platform provides tremendous advantage.

Every Workday Has 24 Hours

Lenders can shine in the eyes of customers by leveraging design thinking to develop a delivery model that is not limited to the constraints of Monday to Friday, 9–5. A blended model keeps the loan processing 24 hours a day as it moves between skilled resources onshore and offshore as shown in Figure 3. The actual structure of the teams and where each step is processed can be customized per the lender's preference, but a typical setup might look like this:

1. The loan originator submits the loan for overnight review. A junior underwriter checks the borrower documentation, compliance and program eligibility, preconditions, etc., and preapproves the file. Providing this function offshore can reduce costs by as much as 50%. The lender can also release capacity for the onshore team by ordering and tracking third-party documentation from offshore.
2. The next morning, both the originator and the processor can see the work performed overnight and the status of files awaiting them in the processing queue. Approved files then trigger a meaningful welcome call to the borrower. This onshore/offshore teamwork drives remarkable customer service and efficiency.
3. Offshore resources support the onshore processor around the clock by tracking inbound file documents and checking for accuracy, thus freeing the processor to focus on the customer and loan originator communications. When all documents have been received and reviewed, the file is submitted to the onshore underwriting team for the final credit decision.
4. All components of closing and funding can be performed in this synchronized, dual-shore partnership, aligning skill sets to keep the loan in continuous motion. Fee computations, document creation, and prefund quality control might be

performed offshore, with all communication and validation occurring onshore. Virtually any element of mortgage manufacturing, retail, wholesale, correspondent, portfolio acquisition, and servicing can be supported offshore, though voice work remains an onshore requirement.

An outsourcing partner with the proper onshore and offshore mortgage experience will structure the framework for maximum efficiency in accordance with the lender's specific needs. Wait times—those nail-biting periods when everyone from the customer to the realtor and the loan officer are in the dark awaiting various approvals—can be reduced by as much as 70%, slashing 15 days or more off the average cycle time. This significantly increases the number of loans that can be processed per month.

resources worldwide, partnering with a third-party provider to attain this level of support not only frees in-house staff to higher-level tasks, but gives lenders much greater flexibility. A good provider is nimble enough to scale up and down as required to meet shifting demand across seasons, operational areas, and short- and long-term lender needs. There is no need for the lender to invest in a brick-and-mortar operation or hire blind in an unfamiliar market to accommodate growth.

Continuous training and career development for loan processors, schedulers, closers, underwriters, and quality control and compliance personnel must be an integral part of the delivery model. The most effective partnerships involve personnel dedicated to the lender. Prudent partners train mortgage staff to create a consistent knowledge baseline prior to immersing them in the client's particular environment. They then receive months of specific training in the lender's mortgage origination system, policies and procedures, clientele, and corporate culture before starting service, and remain on that account team to provide continuity and consistency of service throughout the lifetime of the relationship.

Figure 3: Dual-Shore Mortgage Factory Concept

Knowledgeable Personnel Make All the Difference

A successful blended delivery model rests not on sheer numbers of available resources, but on the carefully matched and nurtured skill sets of highly trained, experienced personnel. Excellence in mortgage manufacturing comes from "mortgage bankers serving mortgage bankers," not clerks servicing accounts, but college-educated, appropriately licensed professionals with tenure in the marketplace. The U.S. Mortgage Bankers Association is the gold standard in mortgage education. A provider that leverages the MBA for employee education onshore and offshore gives an additional advantage to its customers.

Possessing the skills, experience and knowledge to quickly assess requirements and identify regulatory issues yields faster cycle times, greater productivity, and more satisfied customers. With the growing availability of trained

Capitalizing on the Right Tools

Advantages enjoyed by innovative lenders include the burgeoning capabilities of technologies designed to expedite loan manufacturing and enrich the customer experience by limiting the amount of effort required by the customer. Mortgage systems are often proprietary to individual companies, but the most effective ones facilitate automated/intuitive workflow, third-party integration for automated ordering and tracking, document management capabilities, real-time reporting, and automated task-based customer communication. These systems also emphasize data security, safeguarding borrowers' personal information against hackers and unauthorized users.

In addition, lenders can continuously track and refine the customer experience with predictive analytics, online research tools to help customers inform themselves, self-service portals, and social media tools.

Together these technologies maximize agent time and efficiency. They also facilitate transparency in the loan process at every stage, support timely reconciliations and investor reporting, and enhance customer and mortgage analytics, fraud detection, loss mitigation, and quality control/audits.

Innovation Pays at Every Level

A keen focus on continuous process improvement and enhancing the customer experience provides an excellent outcome for all parties. The satisfied customer completes the transaction in a timely manner even as "timely" is defined in our modern, high-speed world. The lender gains by processing loans faster, at lower cost, and the provider benefits from more loans to process as their lender partner grows market share through higher customer satisfaction. Real-world results include:

Reduction in loan origination costs and improved loan turnaround times for a major U.S. homebuilder, which partnered with a provider for underwriting support and additional expertise in the review and audit processes (Appraiser Independent Review), and exclusionary loan searches. Along with increased information security in a highly regulated business environment, the homebuilder increased its revenue through scalable operations and freed its direct staff to focus on client-facing and customer-centric initiatives.

Shorter cycle times for a large, super-regional bank. By outsourcing its end-to-end retail loan fulfillment, the bank leveraged offshore resources and re-sequenced processes, ultimately reducing its origination cycle time by 32 days, with commensurate financial and client experience impact.

The high performers of tomorrow are assessing their platforms today in light of customer experience requirements, a tight regulatory environment, and ever-increasing costs to originate. They are seizing new opportunities by thinking beyond borders, developing innovative delivery models, and deploying technologies to meet and exceed customer expectations ... and putting the profitability back into mortgage lending.

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For More Information & Inquiries

For more information on Sutherland Mortgage Services mortgage process management capabilities, please visit: www.sutherlandglobal.com/mortgage.

For detailed inquiries or to schedule an exploratory discussion, please e-mail us at sgsmortgage@sutherlandglobal.com or call 1-800-388-4557 ext. 2812.

About the Author

Kim Hoffman, CMB, AMP, is the global head of mortgage operations at Sutherland Mortgage Services, Inc. She joined Sutherland in June 2015, and was most recently chief operations officer for Morgan Stanley's residential lending. During her more than 25-year mortgage banking career, she has managed large-scale mortgage operations for such organizations as The Royal Bank of Canada (RBC), American Business Financial Services and Fleet Financial Group, and Chrysler Financial Services. Her broad background includes end-to-end mortgage operations, underwriting, credit risk, loan administration, servicing, default management, compliance, process engineering, secondary marketing, and loan originations.

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