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Shifting To Seamless Loan Completion: A Story Of Componentization And Modularity

The time is past due for loan servicers to adopt integrated digital software.

by Jay Coomes

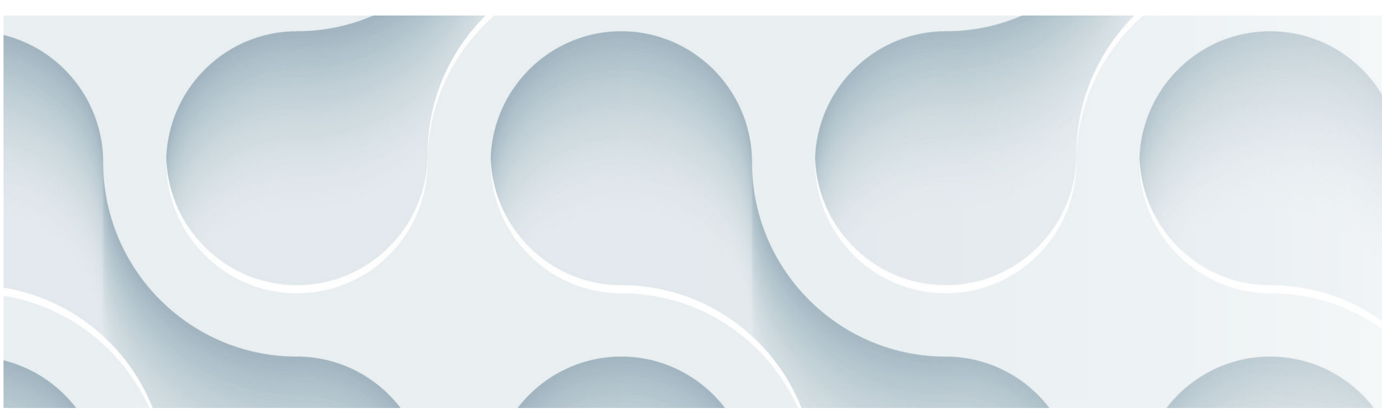
Componentization, modularity and automation are more than just buzzwords for the modern loan servicing professional - they represent the very future of the industry. They facilitate seamless integration between loan originators and loan servicers, resulting in reduced costs and risk, shorter loan processing timelines, greater efficiencies and productivity, and ultimately, improved overall customer satisfaction across the loan completion process for lenders of all sizes. Instead of continuing to rely on outdated and error-prone "stare and compare" operations, the time is past due for loan servicers to adopt integrated digital software, which takes the borrower from loan origination to disposition.

Moving beyond "stare and compare"

The lending landscape has become increasingly complex, with the understanding set that loans will be originated, sold and serviced in strict accordance with investor and regulatory requirements and that a specific emphasis is placed on not harming the borrower. The last economic downturn exposed system-wide problems with the handoff of data between origination and servicing systems. When there is a different team managing each operational step of the loan lifecycle, loan quality and compliance with evolving regulations, audit controls, and reporting are all compromised.

The Private Mortgage Investment Act has put added pressure on legacy lending siloes, and problems have appeared most prominently on the post-closing areas as the last line of defense for critical quality control (QC). Typically, the numerous post-close processes are not automated, which makes QC laborious, time-consuming and fraught with pitfalls due to multiple data discrepancies spread over disparate platforms and compounded by human error. Integrating origination and servicing systems seamlessly is of paramount importance in a more stringent regulatory context. Pressure is increased on lenders to ensure data integrity by replacing paper-based, manual processes of physically looking back and forth across multiple documents to verify that the information is consistent with an automated approach.

To fulfill these new transparency and processing obligations, lenders have had to increase headcounts, workloads and reams of complex paper documents. Post-closing, loan boarding, trailing document tracking, QC reviews, and audit and collateral vaulting systems and processes have all been cobbled together to manage the workflow. All of these applications, systems and processes have to play well together - but many still do not, so this model has produced decidedly unsatisfactory results to date.



Addressing these issues using multiple technology platforms and disjointed processes can be extremely difficult for today's lenders. Fortunately, effective loan completion systems that offer seamless integration and efficiency do exist - automating loan quality processes into origination, servicing, loss mitigation and secondary workflow and facilitating the handoff and sharing of information by providing the ability to view multiple loan documents and records from a single view.

Improving integration through componentization

Implementing specialized, componentized subsystems that connect origination and servicing processes is crucial to move away from processes that waste time, money and company resources. By thinking strategically and choosing the right consumer-driven technology approach, organizations can offset risk and expenses, improve processing QC standards, and increase borrower satisfaction throughout the loan origination, servicing and completion process.

In the past, servicers endured the headaches of myriad spreadsheets, databases, paper lists and manual processing that made up the complicated loan process - the right solution can eliminate up to 80% of ad-hoc processing, such as data entry and other administrative chores, that hampers productivity and ramps up risk. Today, although some origination and servicing systems have components of a loan completion process, there is still ultimately a line of demarcation between them that effectively prohibits a seamless end-to-end process.

So, what's the answer? The answer is a life-of-loan solution suite that ensures compliance and automates time-consuming processes through enhancements to existing loan origination, loan servicing and regulatory compliance systems. It is imperative that loan records be accurate, complete, signed and consistent across documents. Under the old systems, a loan record might include my name as Jay Coomes, Jay J. Coomes or Jay Joseph Coomes on different documents across the same loan and cause fragmented, disjointed one-off records due to disparate systems and flawed clerical processes. Inconsistencies in numeric data points (e.g., loan amount) between systems are also introduced through human error, timing of changes or the mismatching of individual system data field definitions. All of these data discrepancies can be minimized with the generation of new solutions available to lenders, taking the most manual - and most error-prone - portions of the loan process and automating them to reduce and even eliminate errors.

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Componentized and modular systems increase operational efficiencies through integrated loan boarding, as origination data is brought over to the servicing system and audited against the post-closing documents. A streamlined loan process combines human-, document- and process-centric workflows; document tracking and management; and current best practices to provide a turnkey solution. Standardized workflow processes for loan origination, loan servicing, regulatory compliance, secondary market sales and QC integrate with existing loan origination, servicing, audit and other lines of business solutions to enhance and optimize a lender's business.

Automated loan completion: four vital components

Lenders must implement modular, componentized software solutions that integrate seamlessly with existing origination and servicing systems, minimizing disruption to the overall operational workflow. Automating loan completion has four key components:

Capture. Automated loan completion needs to start with optical character recognition (OCR) technology capabilities to intelligently identify each document and each page of the imaged loan folder. Although not all OCR technology is equal, the technology has evolved so that the large majority of documents can now be automatically classified by the system. Once each page is "classified," critical keyword data is automatically extracted from the documents based on their classifications - sifting through superfluous screeds of text to pull out important and pertinent information, automating the historically labor-intensive indexing of the documents.

Track. Multiple loan tracking automation should be designed and created to allow processors to react to the automated process exceptions and to accurately track changes to the loan folder - maximizing the borrower experience, ensuring the establishment of evidence of compliance and minimizing processing time.

Review and confirm. QC should ensure that processes support compliance and requirements for providing loan-level data, remotely viewable documents, standardized packaging, pool reviews and electronic delivery. QCs should be integrated into the pre-closing audit, post-closing audit, data validation and overall document readiness.

Deliver. Processes and workflow should provide final validation and verify delivery of the completed loan documents to the correct destination. Delivery processes should ensure that required documentation and collateral documents exist, are kept up to date and assist in managing the relationships between borrowers and the financial institution. Delivery processes should support and maintain preference profiles for multiple recipients, including insurers, investors, auditors and legal entities.

The future is seamlessly integrated systems

Thriving in today's lending space - where lenders and servicers are bombarded with requirements that have increased their costs and negatively impacted productivity - necessitates strategic planning and action to fortify overall lending operations. Siloed lending technology inhibits loan quality assurance and risk mitigation. In addition to increasing operational cost and risk, the use of disparate technology adversely affects the customer experience with unmet expectations for error-free loan processing - so lenders must seek new solutions for their current systems.

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Many of the existing origination and servicing systems were built in a different time and for a different set of challenges - but it's not necessary to undergo a premature complete overhaul of the system (which can be expensive and provide its own unique challenges). Instead, financial institutions can differentiate themselves by implementing componentized systems that form a bridge between yesterday's systems and today's opportunities.

New solutions offer a generational leap forward and revolutionary common sense in the form of automated data verification and seamless handoffs. The financial institutions that take a centralized approach to managing loan quality and risk by implementing loan completion solutions will be better positioned to emerge as industry leaders than their competitors that rely on traditional lending technology platforms, built in a different time and for a different set of challenges.

The loan quality assurance facilitated by a loan completion solution will help institutions overcome systems limitations, leverage secondary market opportunity, avoid compliance issues and enhance the life-of-loan experience for borrowers. This will increase the likelihood that the consumer will not only select a particular lender, but also remain loyal to that lender for future borrowing needs. SM

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