Point of View

Optimize the Exchange of Servicing Data

The digital mortgage banking revolution is touching many areas across the lending life cycle. A lot of the headline news – and fintech startup innovation – is focused on new account origination. Loan origination is certainly a critical part of lending; however, the costs to service are at or near all-time highs. A significant share of this cost is due to paper-based processing of documents and data during the origination process, as well as during post-closing quality control, loan onboarding to the servicing system and services processes. Paper-based manual processing continues to overwhelm downstream processes after loan closing.

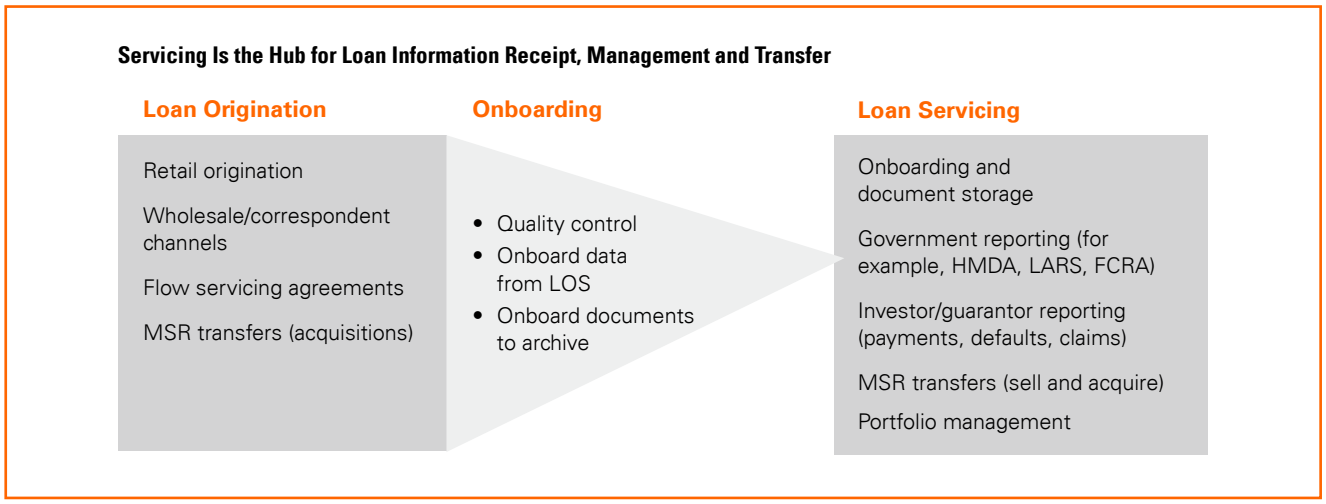
If front-office account origination processes are the courtship and honeymoon in a relationship, then back-office onboarding and account servicing are the marriage. This is where customer data and documents are processed, cost efficiency can be realized, regulatory requirements are met, mortgage servicing rights can be bought and sold, and customer services can be improved.

So how can mortgage lenders make loan onboarding and servicing better, faster and cheaper for their operations and customers? Learn more about technology requirements and see how one loan servicer improved loan onboarding and servicing data exchange among servicers, loan investors, regulators and customers.

The Great Paper Chase

The figure below displays loan document and data funneling into the post-closing loan onboarding and servicing processes. Mortgages are originated through multiple distribution channels. In addition to the retail branch and internet/call center channels, the mortgage supply chain includes wholesale third-party originator (TPO) and correspondent channels.

When brokers and lenders originate a mortgage, separate loan asset and mortgage servicing rights (MSR) asset are created. The information (paper, imaged, electronic, data feeds) must go through quality control review, then be sent to the servicing system or third parties (for regulatory compliance, MSR sales, investor reporting/portfolios). Mortgage servicers,



Source: Fiserv

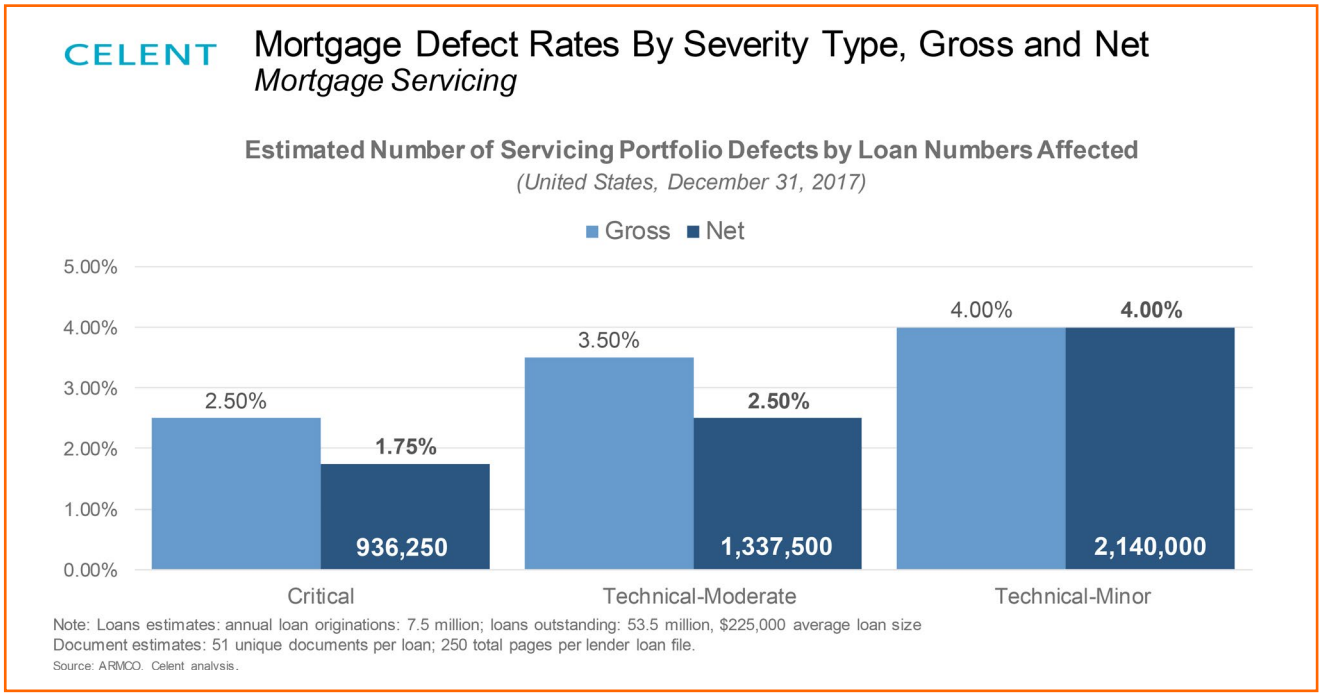
investors and guarantors all have a financial interest in these assets, and those interests must be perfected through accurate documents and system data.

Onboarding mortgage information onto the servicing system and document management systems is critical to efficient and profitable operations. There are dozens of documents and thousands of data elements, and it all needs to be accurate. However, errors (loan defects) increase when content switches between systems, especially when there is redundant data entry instead of digital content transfer. Some defects are caught during pre- and post-closing quality control audits, but many are not.

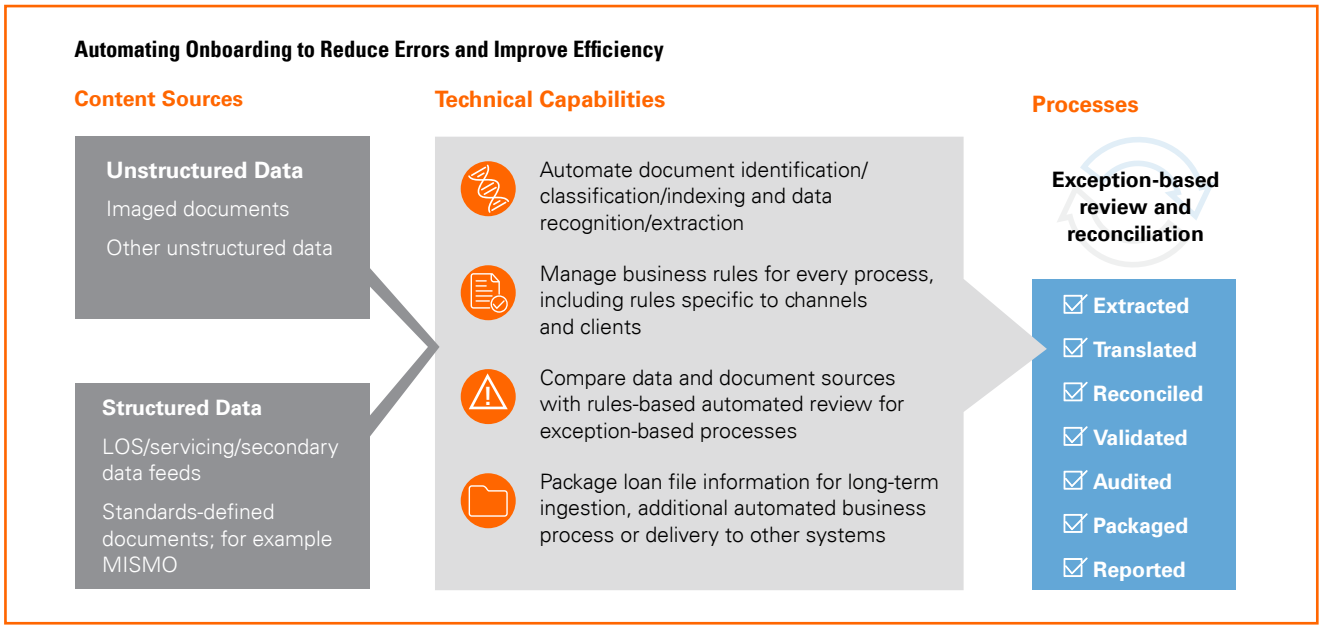
Mortgage investors such as Fannie Mae define loan defects as critical and technical. Critical defects are those that would legally require the lender to repurchase the mortgage from the investor that purchased the mortgage. Technical defects can increase costs, but won't result in repurchase. During the third quarter of 2017, the critical defect rate was 1.65 percent. Thirty-two percent of critical defects were in the loan package (documents) category, and 38 percent were in the legal/regulatory compliance category. Loan document packages and compliance are tightly connected, and these are the areas where new technology investment can have the biggest impact.

Moreover, the trend in critical defect rates is likely to worsen. Loan defects are positively correlated with the percentage of purchase mortgages, which are more complex to originate. With the share of purchase mortgages rising, the number of critical defects is likely to rise unless lenders improve their operations and systems. Even with relatively small defect rates, the number of defects is large. Celent estimates that using the same defect rates previously shown and an MSR portfolio of $500 million, MSR purchasers must review over 550,000 documents to find an estimated 2,200 defects.

The root causes of loan defects – and high processing costs and regulatory problems – is not regulatory compliance per se; it's trying to manually process paper-based documents across complex and interconnected processes combined with weaknesses in data collections and data transfer between systems. These root causes lead to errors or defects that can result in loans that investors won't buy, a reduction in loan and MSR purchase price, or investor loan repurchase requests after the loan is sold.



Source: Celent



Source: Fiserv

Automating Onboarding to Reduce Errors and Improve Efficiency

It is the servicer's responsibility to ensure the loan information is accurate and complete, and is processed within the investor timelines required for boarding and transferring loans and portfolios. Processing is critical to being a preferred servicing partner because all parties to the loan rely on the servicer to have accurate data and process loans quickly and accurately.

The first figure on the next page summarizes the technical capabilities needed to ingest content sources and process them. Content sources can be structured or unstructured. Structured data is in fixed format and location, in a database or on a document. Unstructured data often comes from nonfixed locations on nonstandard documents.

The technical capabilities are very similar to standard enterprise content management (ECM) system functionality: document capture, classification, index, extract, storage and management. Lenders should eventually implement all the capabilities they need, but start with one process or business area. Data errors and loan defects will decline but still exist. Data conflicts between two sources of the same data field – loan origination system (LOS) data and loan document – are most common. Exceptions require manual intervention, but their negative impact on operating costs and employee morale will decline.

Case Study: BMO Harris Bank

BMO Harris Bank, N.A. (BMO), a leading mortgage servicer, recently automated its content onboarding processes and made significant improvements to its servicing operations. As with many servicers, they had information accumulated from many sources but needed to ensure it was correct when setting up loans in their servicing system. BMO's business goals were to automate comparison and validation process for new loan onboarding, identify and report loan performance trends, and identify and remediate loan defects immediately. They decided to look for ways to automate loan onboarding and servicing.

The figure below summarizes the evaluation methodology used and project implementation processes conducted to evaluate, select and implement a digital loan content management solution. The first business requirement was to digitally ingest data and documents from the loan origination system, two servicing systems and the content repository system. BMO also wanted a configurable business rules engine that the line of business (not IT) could manage, automated review and comparison of data and documents, the ability to track exceptions through resolution, and a business intelligence-driven reporting system. BMO chose LoanComplete™ from Fiserv.

BMO Evaluation Methodology and Project Implementation

1 Identify required capabilities

- Workflow engine
- Document content recognitionclassification and extraction
- Comparison business rules
- Integration flexibility
- Security and scalability

2 Proof of concept

- Validate solution capabilities
- Confirm technical compatibility/ integration points
- Assess expected ROI for business case
- Demonstrate to stakeholders

3 Business and technical solution mapping

- Business user experience, including exception processing workflow
- Production support oversight
- Configuration management

4 Implement

- Process re-engineering
- System integration and configuration
- Teach BMO custom documents to recognition system
- Collaborative testing
- Staff training

Source: Fiserv

Critical success factors for the project were strong project governance, digital communications, and an open process for reaching stakeholder agreement on the business requirements and proof of concept phases. BMO needed to validate the vendor's promised solution capabilities and assess the expected return on investment so key stakeholders were confident the technology would work and deliver expected returns.

The business and technical solution mapping process was critical to ensure the business requirements were converted to technical requirements, and the promised process automation improvements were realized. Programming work during the implementation phase relied entirely on the blueprints created during this third stage. Implementation impacted multiple areas of the business. The line of business and IT replaced manual business processes with automated ones and trained employees to interact with the new system and new processes. A key part of the intelligent automation involved "teaching" BMO's custom document formats and data field types to the document recognition system.

BMO realized positive results from streamlining its loan onboarding process. BMO now onboards more loans in less time with higher quality, and the staff is able to meet processing deadlines with less stress. This has improved staff productivity by isolating the work only humans can do and automating the rest. Specific positive metrics realized included:

- **Improved risk mitigation:** BMO is now able to review 100 percent of loan files, 100 percent of the time. It increased issue/defect identification 14 percent at the time of loan boarding and reduced manual exception processing
- **Efficiency gains:** BMO now saves several minutes per loan during onboarding by converting manual "stare and compare" error checking to automated checking, with a small manual process for reviewing identified issues/exceptions. Correcting issues at boarding eliminates the need for servicing problem resolution later
- **Identifying trends:** The improved reporting capability identifies issues and makes coordination with upstream departments and external third parties easier and consistent. These other entities have better data to prioritize and create their own efficiency gains

BMO also learned lessons to apply to future projects. First, it targeted the most common documents and data that were easiest to automate during the initial project implementation. Second, BMO let the new system express what it didn't know through automated, analytics-driven reporting. In subsequent phases BMO will expand the technology to the remaining documents, as well as new areas of servicing that have a high return on investment.

Other Uses of Automated Document and Data Transfer in Mortgage Servicing

Servicing operations, reporting, compliance and customer service needs are constantly changing and growing. Mortgage servicers can extend automated document and data transfer capabilities to other servicing processes after the initial loan onboarding. Two important areas that rely on digital documents and data today are Home Mortgage Disclosure Act (HMDA) regulatory reporting and mortgage servicing rights (MSR) transfers.

HMDA reporting: HMDA requires certain financial institutions to collect, record, report and disclose information about their mortgage lending. HMDA changes were mandated in a 2015 Consumer Financial Protection Bureau (CFPB) rule that phases in the new requirements from 2017 to 2020. The changes will nearly double the number of data fields collected, and by 2020 lenders will need to automate the process for delivering data to the CFPB. Compliant HMDA reporting requires correct, validated data. In addition, lenders need an automated way to analyze and report on the data, not only to meet the requirements, but to lower costs and create an efficient way of analyzing the data for internal analytical audits, external reporting compliance and external audits.

MSR transfers: Some financial institutions continue to sell MSR assets in response to increased capital requirements. Well-capitalized institutions that want to acquire customer relationships and earning assets continue to find MSRs attractive. MSR transfers require high-volume data exchange under tight deadlines over a period of weeks or months to assess credit, prepayment and other risks, and to price the MSR value. A continuous "data reconciliation loop" is needed between the servicing rights transferor and transferee because borrower, tax and insurance payments are constantly being made during the MSR negotiation process. This means both servicers must constantly resolve disparities and update records. This reconciliation process is arduous and time consuming; errors require more review and increase costs if performed manually.

Industry servicing data standards exist, but they are most often used for basic data exchange with investors. They are not as commonly used for digital document taxonomy, payment ledger history or MSR transfers – but they should be. Data standards, digital document management and optical character recognition (OCR) are essential keys to improving MSR transfers and accelerating the "reconciliation loop" without compromising information quality. In addition, servicers should:

- Streamline MSR preparation or acquisition by collecting all MSR information in one place
- Automate the review and comparison processes so staff can focus on exception handling and resolution instead of clerical confirmations
- Enable the output of the review process to be trusted data translated to the servicing system

The Way Forward: Practical Advice

Mortgage lenders need a quick action plan for implementing a loan completion system to add workflow-driven digital document and data management to the mortgage post-closing and servicing life cycle. Financial institutions need to consider three key actions when evaluating how to automate loan onboarding and servicing:

- **Prioritize goals:** Evaluate and rank strategic goals for your servicing business. Determine which servicing processes provide the best opportunity to redesign
- **Evaluate systems and processes:** Determine the best way to redesign those processes. Assess the capabilities you have today, and identify what do you lack or need to optimize targeted servicing processes. Also evaluate which technologies that you've already invested in can be reused or expanded
- **Plan:** Identify and be clear about your success criteria, and the business case ROI for your initial projects. Also consider how you can invest once to leverage your investment across other servicing processes

Mortgage servicers can improve the speed and efficiency of loan onboarding and servicing data exchange while also reducing loan defects, costs and the risk of regulatory sanctions.

This paper is a synopsis of a May 9, 2018, webinar: "Optimizing the Exchange of Servicing Data".

About the Authors

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