

Mortgage Origination Done Better: Improving Data Quality and Making Compliance Checks More Efficient and Effective With Automation

Digital loan origination processes can still require significant manual support, which is inaccurate and time-consuming. Learn how the latest technology can improve your current loan production while reducing costs and non-compliance risk.

It is time to update the loan origination workflow and apply state-of-the-art technology tailored to the industry's needs and problems.

In today's environment of rising costs and increased regulatory requirements, it is imperative that the mortgage industry advance its approach to loan origination processing, particularly in the areas of data verification and compliance checking. The manual loan origination systems that served mortgage businesses for decades are now hindering growth because they are inefficient, expensive and error-prone. It is time to update the loan origination workflow and apply state-of-the-art technology tailored to the industry's needs and problems.

Using the right automated solutions to eliminate manual operations will optimize data quality and compliance and, at the same time, reduce loan processing overhead. This white paper outlines the problems — and mounting costs — inherent in paper-driven processing systems and shows how automation can mitigate them.

Increasing Costs, Lagging Innovation

Mortgage loan processing compliance costs have climbed steadily since the end of the financial crisis. In less than a decade, thanks in part to increased

regulatory requirements and scrutiny, loan origination costs have jumped 62%. The average cost to originate a loan in 2015 was \$7,046, and that number rose to \$7,209 in 2016.¹ While this represents a relatively negligible year-over-year increase of 12%, consider that the average cost to originate a loan in 2008 was \$4,500.²

Research shows the average added cost of compliance reviews or due diligence processes per bank per transaction is \$300; however, some banks have reported as much as \$1,000 in additional costs associated with meeting regulatory requirements.³

Costs clearly are impacting profitability. The number of loans in process has risen; in 2016, the average number of loans completed per company was 11,126, up from 9,906 in 2015.⁴ However, profit margins have continued to shrink, due at least in part to expenses associated with hiring and training additional staff during the mortgage crisis to handle a spike in defaults and additional compliance requirements. Even mortgage banks and lending institutions that have digitized their paper-driven operations may still lack automated support

¹ "MBA: Mortgage Revenues Increased In 2016, But So Did The Cost To Originate." Patrick Barnard, April 13, 2017.

² "Rising Costs to Originate Mortgages Spurring Innovation." Cathie Ericson, July 5, 2016

³ "2016 ABA TRID Survey." American Bankers Association.

⁴ "MBA: Mortgage Revenues Increased In 2016, But So Did The Cost To Originate." Patrick Barnard, April 13, 2017.

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for loan processing, data accuracy and compliance checks, which has required them to retain these enlarged staffs — and continue to support costly operations structures.

Unreliable Data Create Waste

Lack of data accuracy and consistency between organizations has proven to be a persistent cause of inefficiency in mortgage originations. Even the industry-wide standardization of mortgage data fields dictated by the government-sponsored enterprises' Uniform Mortgage Data Program has had limited success; underwriters still receive loan files containing misidentified or mischaracterized forms and appraisal values pulled from non-current databases. If such discrepancies are discovered, a loan officer must then perform a time-consuming analysis.

More troubling still are data discrepancies related to Truth in Lending Act-Real Estate Settlement Procedures Act (TILA-RESPA) disclosures, such as variances between Loan Estimate and Closing Disclosure fees and whether those variances are within the rule's acceptable thresholds.

When lenders collect documents from third parties, rather than the borrower or bank directly, they may encounter problems caused by low-quality technology. Errors due to inaccurate readings typically stem from blurry values created by photocopied or scanned documents uploaded into electronic databases.

Together, these issues create enough work to require whole staffs who must use their judgment to resolve the discrepancies — and who can inadvertently add another layer of potential error to the process.

Compliance Adds Complexity

Mortgage loan applications often involve multiple drafts, with information changing negligibly between each version. The initial application completed by a borrower may be amended several times before it is eventually finalized and signed. Loan origination systems (LOS) typically aren't equipped to differentiate between subsequent versions; instead, mortgage originators must rely on manual review, which lowers productivity over the life of the loan.

Mortgage businesses must also record every step of the document audit process to meet the TILA-RESPA Integrated Disclosure (TRID) rule. For all the digital solutions they have implemented, very few banks and lending institutions have adopted automated solutions that can support them with compliance documentation. Even worse off are those institutions that still depend on printed records, because they face the risk of lost or misplaced files. Adding barcodes to each document helps limit loss and manage versions, but that the task still requires significant manual effort.

TRID Compliance Drives Manual Processes

After TRID was implemented in October 2015, the compliance focus shifted from borrower disclosures to pre- and post-close quality-control and compliance.

Ninety-three percent of 500 banks surveyed by the American Bankers Association in 2016 reported a rise in per-transaction processing times following TRID implementation. Banks are averaging an eight-day increase, but some transactions have increased in length by 20 days.⁵ Additionally, problems tend to arise during post-close quality control reviews, many related to Closing Disclosure data and fee tolerance issues.

⁵ "American Bankers Association. 2016 ABA TRID Survey.

With ultra-fast automation rates, large volumes of documents can be classified and prepared for archiving without the need for a time-consuming staff review prior to audit.

While compliance chiefs might simply want to hire additional staff to handle TRID regulations, this strategy is an inefficient and costly way to address compliance. In the ABA's survey, 30% of banks surveyed hired more staff to handle TRID compliance, and while the majority of those added only about eight new employees, a few institutions brought on more than 100. One banker commented: "We restructured our loan staff and created dedicated/specialized loan originators and processors who only handle TRID. For a small community bank, this isn't the best use of our staffing."⁶

TRID's narrow time-limit windows, combined with fee ceilings and change thresholds that are more difficult to adhere to, present additional problems. For example, if a zero-tolerance fee changes from the Loan Estimate to the Closing Disclosure, a trained employee must "stare and compare" to determine whether that change is a mistake or was due to a triggering event that subsequently required a revised Loan Estimate. Once reconciled, the revised Loan Estimate must be included in the loan file and categorized as such for proper tracking.

Employees may find themselves staring and comparing in multiple scenarios. Flagged discrepancies in information between forms, or duplicate forms without explanation, mean that employees must invest time to determine which form is correct and whether the discrepancy was resolved, adding time to internal audits and potentially introducing compliance errors.

Solution: Automation

Technology already available to the mortgage industry can relieve the friction caused by manual intervention within the lending process workflow. As individual automation components, automated indexing, optical character recognition (OCR), intelligent content

recognition (ICR), comparison analytics and loan tracking can solve common loan production problems. Together, these solutions can remake a mortgage originator's entire loan process.

Automated Indexing

Once all documents have been reviewed, they can be automatically indexed within the larger loan file. Automated indexing builds on ICR's full-document recognition capability to ensure the correct organization of loan document versions within one file.

Automating the indexing process gives lenders an efficient, reliable alternative to stare-and-compare manual processes — and one that creates an audit trail as a bonus. Unorganized loan files are not necessarily a beacon for regulators, but they can exacerbate already stressful compliance audit situations, as well as cause problems for the loan's servicer after boarding.

Intelligent Content Recognition

Manually entered information and outdated data are two of the greatest obstacles to producing accurate loan documents. ICR incorporates OCR along with other intuitive features and a self-learning rules engine to enhance document classification and data extraction for both electronic and handwritten documents. In addition, new document types can be added using the tool's automated learning objects. With ultra-fast automation rates, large volumes of documents can be classified and prepared for archiving without the need for a time-consuming staff review prior to audit. ICR can accelerate identification and extraction of loan file data, while ensuring its accuracy and eliminating data discrepancies between document versions.

The case for applying ICR is compelling: Lenders may be able to realize as much as a 22% increase in productivity in ordering and reviewing closing

⁶Ibid.

Following quality control checks, a clean, verified, high-quality loan file is automatically distributed electronically to the servicer and any additional stakeholders.

documents during the pre-closing audit, and a 36% increase in productivity in reviewing documents returned after closing, for a total possible productivity increase of 58%.

Comparison Analytics

Using automated comparison analytics to verify data between versions of loan documents can ultimately mean the difference between a successful compliance audit and one that ends in a regulatory action. Industry-wide data standards have alleviated some of the pain of matching data fields across platform, agency, or company. However, mismatched data continues to plague lenders and underwriters. A robust comparison analytics tool flags discrepancies early in the origination process so the lending staff can review and reconcile issues quickly. In addition to data quality and consistency, comparison analytics technology can also help lenders eliminate most of the manual stare-and-compare auditing required for TRID compliance.

The tool presents a side-by-side comparison of the flagged data and documents, which allows document reviewers to quickly resolve the problem. Comparison analytics can drastically reduce the time staffers spend on documents and improve compliance.

Loan Tracking

Loan tracking has previously been rife with opportunities to run afoul of compliance. Collecting large volumes of documents, whether paper or electronic, increases the possibility that some will be overlooked, lost, unread or unacknowledged.

Automated loan tracking solves these problems by using a sophisticated "track and react" tool. Enterprise-wide

tracking of loan documents ensures all documents needed for a complete loan package have been received, collected, analyzed and indexed, replacing manual tracking through spreadsheets and notes. This results in smoother and more efficient processing, underwriting, compliance and pre-close. If documents are missing, the system can notify loan officers immediately to rectify the problem — and in turn, eliminate last-minute surprises that can delay closing, hamper disclosure deadlines, and negatively affect the borrower's experience.

Automation's Bigger Benefits

Enhancing the document handling process in these ways also means that quality control processes can support compliance and requirements for providing loan-level data, remotely viewable documents, standardized packaging, pool reviews and electronic delivery. Automated processes and workflows provide final validation and verify delivery of the completed loan documents to the correct destination (whether an investor, servicing company/department or legal/compliance officer).

These digitally assisted reviews and automated quality control checks generate evidence of compliance for auditors, creating even stronger efficiencies. Using this technology, lenders can achieve close to 100% data and document auditing with only 20% manual intervention.

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Conclusion

Automation can make the loan origination business even more efficient and profitable, while reducing compliance risk. A strong automation solution will include text processing such as ICR along with comparison analytics, automated indexing, and loan tracking to ease the pain points currently so prevalent in the industry, while protecting mortgage originators from compliance oversight and regulatory enforcement actions.

Mortgage businesses can increase their business in this competitive market, but they must streamline their back-office operations to support the new growth. Leveraging the advanced technology now available positions them to seize opportunities, not just in the near future, but for the long term. ■

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