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Improving Loan Quality and Reducing Risk Through Automation

By Jay Coomes

The ever-evolving lending landscape is shifting, understandably to become more pro-consumer, but for mortgage operations, this means more complexity, operational difficulty to implement on a timely basis and leaves no margin for error. These legislation shifts present a myriad of challenges for mortgage lenders.

September 2017 will see the new Uniform Closing Dataset (UCD), which will help promote accuracy, consistency and clarity around loan transactions. The data must represent the agreed-upon terms of the loan and contain the most accurate information available at the time of loan delivery.

This summer, the Consumer Financial Protection Bureau (CFPB) proposed updates to its "Know Before You Owe" mortgage disclosure rule, designed to help borrowers understand the terms of their home financing transactions. The proposed changes are intended to provide more clarity and preserve protections for consumers.

These legislative reforms add to the challenges faced by loan servicers striving to balance profitability, risk management and the consumer experience–which ultimately manifests as overall customer satisfaction.

Mortgage banking is sales dominated–salespeople are transaction and commission-driven, yet many companies allow salespeople to make changes to loan data. Many of the top executives in the industry come from sales, and profitability is driven by originating loans. Decentralized processing and closing continues to be endorsed, even though it is much costlier, not easily automated and efficiencies cannot be fully realized. The outcome is that processes are "people controlled and defined" versus rules based, managerially controlled and exception focused.

In this new paradigm, winning financial institutions will be the ones that transform their business models to place loan quality and risk management at the center of their operations. To facilitate continuous life-of-loan management, inclusive of the requisite data transparency and audit trails that support loan quality and loss mitigation, these institutions will implement and automate a loan completion system. Such a process will manage data quality and access to loan data and documents throughout origination, servicing and sale on the secondary market.

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Utilizing technology to turbocharge quality control

The use of disparate systems creates data transfer and reporting issues between loan origination systems (LOS) and servicing systems. While it is true that legacy LOS and servicing systems are comprehensive databases of record for the transactions in the lending chain, creating and maintaining a quality, auditable, saleable loan unit requires more than just system-generated transactional data. A marketable loan unit also requires signed legal documents, plus the documentation and transactional data that prove and justify decisions made during the life of the loan. As a result, lenders need an effective loan completion system that goes beyond enterprise content management functionality to ensure a higher quality loan package by governing the capture of point-in-time origination, servicing and loan disposition events, and related loan documents to support loan quality.

A loan completion system automates loan quality processes into origination, servicing, loss mitigation and secondary marketing workflows, and facilitates the handoff and sharing of information by providing the ability to view and compare multiple loan documents and records from a single view.

An effective loan completion system incorporates the following five vital components:

- **Capture:** Enhanced capture technology capabilities for extracting keyword data from scanned documents utilizing zonal OCR (Optical Character Recognition–the best engines can "read" the documents and recognize 80 percent to 85 percent of the documents), intelligent templates, automated indexing and full document recognition should be readily available.
- **Tracking:** The tracking of any loan conditions and their disposition for efficiency of quickly processing and resolving any outstanding issue, and for later use as evidence of compliance.
- **Data confirmation:** Automating the traditional manual "stare and compare" process of confirming data between multiple systems and/or documents to systems.
- **Compliance review:** Ensuring that the data being prepared matches compliance requirements by automating submittal and compliance checks prior to delivery to help comply, reducing exception conditions and thus processing time.
- **Compliance review:** Automatic submittal and compliance checks against compliance requirements prior to delivery to help comply with regulatory requirements, reduce exception conditions and thus processing time.
- **Delivery:** Processes and workflows should provide final validation and verify delivery of the completed loan documents to the correct destination. Delivery processes should ensure required documentation and collateral documents exist, are kept up-to-date, and assist in managing the relationship between borrowers and the financial institution. Delivery processes should support multiple destinations, including insurers (for example, the Federal Housing Administration and Veterans Affairs, investors, auditors and legal entities).

By automating loan quality assurance, the loan completion system ensures individual steps within the life of loan process are definable and traceable. Automation can assist in making certain that loan data meets standards at all quality gates and regulatory checkpoints. Ideally, the loan completion should be flexible and configurable so lenders can design their loan completion processes to meet ever-changing regulatory demands and specific institutional needs.

The loan completion process should leverage automation to gather and manage system data and documents. By using a loan completion system, lenders can bring tremendous efficiency to this space and eliminate risk associated with nonstandard processes and multiple systems.

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The loan completion advantage can be summarized in five distinct areas:

- **Standardized workflows:** Human-, document-, and process-centric workflows are combined, along with enterprise content management and current best practices, to provide a powerful turnkey solution. A loan completion solution automates quality control processes into loan origination, servicing, regulatory compliance and secondary marketing workflows to enhance and optimize end-to-end lending operations
- **Automating manual data review audit processes:** Loan completion systems allow for the reviewing of all available loan documents at a glance. Documents are intelligently indexed with critical data extracted for easy comparison. Unlike with error-prone manual views, data mismatches are flagged early in critical processes to expedite corrections and help maintain the integrity of loan data from origination to completion.
- **Audit trails:** Loan completion systems offer complete audit trails to facilitate compliance, make reporting capabilities more robust and provide transparency into life of loan processes.
- **Electronically categorize and track loan documents for all channels of lending from a single intuitive platform:** Loan tracking systems provide an intuitive single-view interface that centrally store documents electronically, as well as categorize and track loan portfolio content for the commercial and consumer lending space. They ensure current loan documents, financial reports and collateral documents exist, are kept up-to-date, and assist in managing borrower and loan portfolio information.
- **Increased revenue and a better consumer experience:** Loan completion systems detect document errors and match data coming from other processing sources, reducing processing time and expense. This also reduces purchasing risk and delivers a stronger customer experience to the buyer.

Loan completion systems safeguards loan quality and mitigates risk

The trends associated with modern-day lending demand that mortgage lenders consolidate and automate to enhance the bottom line and reduce regulatory risk. Without a material change in approach, many companies will not be economically viable. Siloed lending technology inhibits loan quality assurance and risk mitigation, and–in addition to increasing operational cost and risk–the use of disparate technology negatively impacts the consumer experience with expectations for error-free loan processing going unmet.

Implementing loan completion systems and taking a centralized approach to managing loan quality will define which financial institutions rise to meet the new challenges presented by the current increasingly complex lending climate. The loan quality assurance facilitated by loan completion systems will help institutions overcome systems limitations, leverage secondary market opportunity, help avoid compliance issues and enhance the life-of-loan experience for borrowers.

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