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White Paper

Assuring Loan Quality Through the Loan Completion Process

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In today's ever-evolving lending landscape where loan quality and risk management challenge profitability and the customer experience, technology may be the key to thriving – both now and in the future. Winning financial services 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 process. Such a process will manage data quality and access to loan data and documents throughout origination, servicing and sale on the secondary market. By making the loan completion process a core strategic competency, lenders will reduce processing costs and ensure the quality of each loan throughout its life cycle.

Lending has traditionally followed a linear model, where the multiple processes associated with the life of the loan have been compartmentalized into silos. Often, this means there is a different team managing each operational step – potentially compromising loan quality and compliance with evolving regulations, audit controls and reporting. And, as loan volumes increase, so do the challenges associated with this linear approach.

What Defines Loan Quality?

Successful lending has often been measured on loan unit quantity rather than quality. This mindset has created a factory-like focus on upfront production, sometimes in deference to integrating the back-office areas that safeguard loan quality: post-closing QC, compliance and exception management. As a result, lending operations must cobble together information from a variety of disparate systems and technology silos to prove loan information is accurate, loan decisions have been fair, lender actions have been compliant and all documentation is in place to sell the loan asset on the secondary market.

Regulations Abound

New consumer protection and nonperforming loan regulations enacted over the last few years were created out of a necessity to track loans either in foreclosure or where default was a very real possibility. These regulations have caused lenders to add staff and functionality to keep pace with audits and data integrity. This adds to the complexity of systems and processes that lenders have to govern in order to be compliant. Consequently, financial institutions are now expending more energy on regulatory constraints than on growing profitability or creating better customer experiences. Specifically:

- According to industry experts noted in publications like American Banker, these changes have caused a significant rise in servicing costs per loan. Many believe the mortgage servicing rules may force some servicers to exit the business altogether or to outsource servicing of defaulted loans to third parties.
- Dodd-Frank reform has tasked lenders with performing additional institutional examinations to promote financial stability and improve the quality of the loan product as a protection for consumers. The rules govern everything from derivatives trading to mortgage lending.
- The Consumer Financial Protection Bureau (CFPB) was created to protect consumers engaged with financial products and services. The CFPB has outlined its examination content and expectations for both depository and nondepository institutions and now requires lenders document every complaint and resolution.
- The TILA-RESPA Integrated Disclosure rule, also known as TRID, has been a hot topic for some time and has added complexity to the mortgage industry. TILA is the Truth in Lending Act and RESPA is the Real Estate Settlement Procedures Act. This rule, which took effect October 3, 2015, was designed to help borrowers understand the terms of their home financing transactions and soon became referred to as the Know Before You Owe rule. The CFPB states the Know Before You Owe mortgage disclosure rule replaces four disclosure forms with two new ones, the loan estimate and the closing disclosure. The new forms are easier to understand and use. The rule also requires the closing disclosure be provided to the borrower at least three days prior to closing in order for the borrower to review and ask questions before closing on a mortgage.

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

Other Evolving Pain Points

As financial institutions have looked to private investment to help build the liquidity needed for stability in today's post-housing bubble world, secondary marketing participants are bracing for more changes. Transparency has become the most critical piece of the puzzle when it comes to acquiring assets on the secondary market. The Private Mortgage Investment Act protects investors by requiring standardization and uniformity of mortgage securitization plus transparency into all aspects of that securitization. It also ensures adherence to the rule of law.

This act has reformed the secondary mortgage market to encourage robust private investment in the U.S. mortgage market without government guarantees. Subsequently, it has put added pressure on legacy lending silos, and particularly on the post-closing area as the last chance for critical quality control. Typically, the numerous post-closing processes are not automated, but homegrown, which makes quality control laborious.

To fulfill these new transparency and processing obligations, lenders have had to increase staff and workloads and use reams and reams of paper. Post-close, boarding, trailing document tracking, quality control reviews, audit and collateral vaulting systems and processes have been cobbled-together to manage the workflow. And, as the industry has witnessed, this processing model has had less than successful results.

Typical Life-of-Loan Process Today

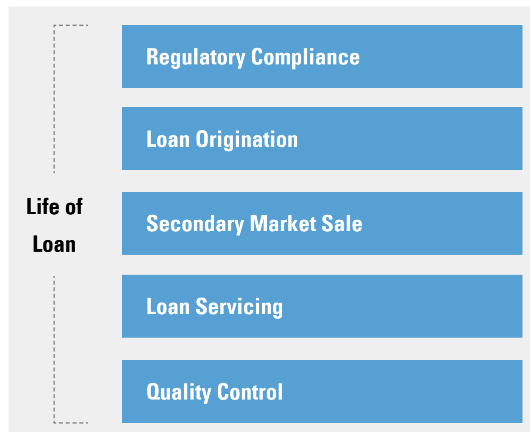
Today, life-of-loan management entails maintaining consistency throughout the capturing, processing and sharing of loan-related content. Managed effectively, the process ensures compliance, reduces risk, improves processing efficiencies and increases customer satisfaction. Ongoing shifts in market dynamics have made that consistency increasingly difficult to achieve. Disparate and fragmented technology can lead to inefficiencies, higher operational cost, greater potential risk and customer dissatisfaction – due to the complex operational functions involved in the life of a mortgage loan.

Regulatory Compliance

In the wake of recent regulatory reform, lenders and loan servicers are being tasked to perform additional self-examinations. Reporting, documentation and quicker responses to audit or complaint issues have become paramount in each of the areas of mortgage operations.

Areas of Mortgage Operations

Compliance is exponentially more challenging when different technology platforms or third-party systems are factored in.



Loan Origination

The loan origination process often drives the consumer experience and, more specifically, the overall feeling of satisfaction toward the lender. The ability to process efficiently, route data quickly and track loan progress is critical to making the process successful for both lenders and consumers. Specific drivers affecting the loan origination experience include cost, time-to-close, collaboration among multiple participants throughout the process, transparency, error discovery and correction, and overall data accuracy. These same drivers also affect the lender's ability to make "clean" sales to the secondary mortgage markets and other conduits.

Loan Quality Completion

In light of the mortgage crisis, current regulations have a greater focus on quality control. In addition, companies looking to build their portfolios continue to search for quality loans on the secondary market. This secondary market demand is driving lenders to seek quality assurance processes that speed time to market.

But, in today's multiplatform and manual processing environments–where quality control is already a challenge due to multiple data discrepancies spread over disparate platforms and compounded by human error–speeding up the process may only exacerbate the situation.

Secondary Market Sale

Some lenders are struggling with the reality of loan buybacks in the secondary market. Many buybacks are a result of poor loan quality attributed to lax underwriting and document management. Today, lenders interested in improving the quality of their mortgage portfolios are looking to establish strong quality review workflows.

Specific drivers include identifying problems earlier in the process chain, and reducing risk and exposure. It can be difficult for today's lenders to address these drivers using multiple technology platforms and disjointed processes. Further, the data validation and consolidated reporting needed to reduce errors and purchasing risk are also far more challenging with multiple lending systems.

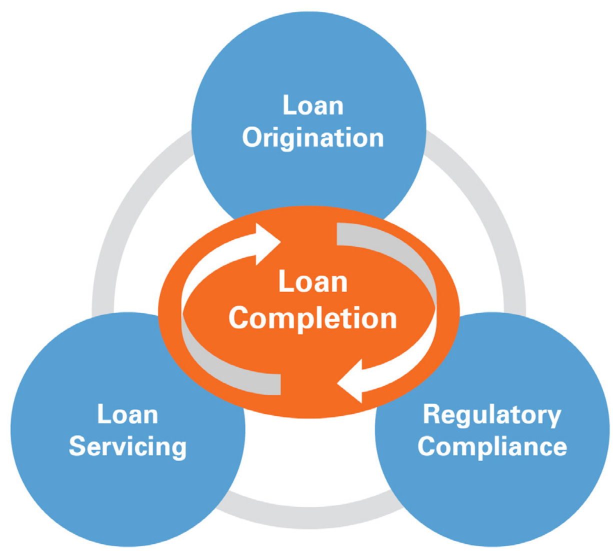
Loan Servicing

Loan servicers that must rely on systems beyond their servicing system of record are struggling with integration and support challenges. Loan servicers that rely on add-on systems to manage loss mitigation and secondary marketing have many processes that are not currently supported by their servicing systems of record. In the current economic and regulatory environment, it is critical to have transparency into acquisition/sale review, early default review, pre-foreclosure review, payoff review and loan modification document routing. The use of multiple systems makes documentation more of a challenge because it is nearly impossible to track workflows and loan-level events across disparate systems.

To leverage secondary market opportunity and mitigate risk, financial institutions need to remain proactive during regulatory transformation to ensure that at each step, loan origination, processing, post-close, delivery and servicing are scrutinized for overall integrity.

Thinking strategically, the right technology approach can offset risk and expenses by improving processing quality control standards and increasing customer satisfaction throughout the loan origination, servicing and completion processes.

Completing the Life of Loan Cycle

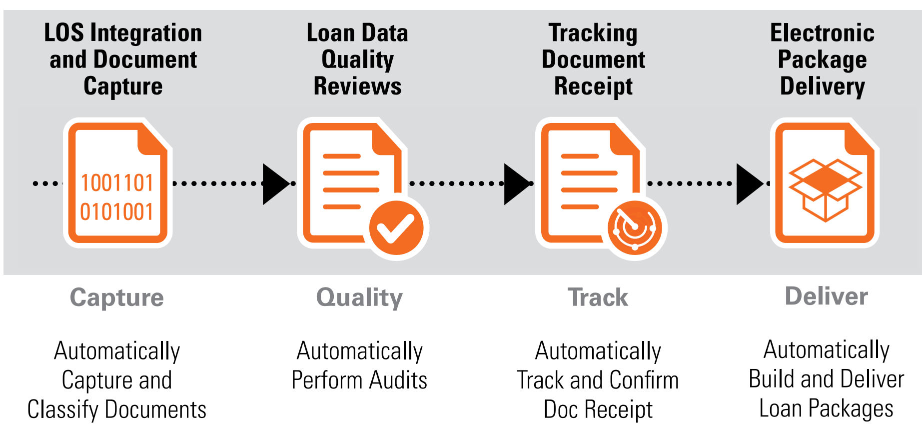


Utilizing Technology to Supercharge Quality Control

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 govern 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



Loan completion includes steps taken to ensure quality at each phase of loan processing.

By automating loan quality assurance, the loan completion system ensures individual steps within the life of loan process are definable and traceable. Automation can make certain that loan data meets standards at all quality gates and regulatory checkpoints. Ideally, the loan completion system 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, documents and document content/data. By using a loan completion system, lenders can bring tremendous efficiency to this space and eliminate risk associated with nonstandard processes and multiple systems.

"Overall loan quality has become paramount for lenders trying to manage regulations and control expenses across evolving financial terrain. Disparate technology, however, will continue to tax lenders with higher operational costs and inconsistent risk mitigation. Fiserv understands the growing challenges in this new loan completion space. The financial services solution leader has developed next-generation loan completion technology to help lenders maintain overall loan quality – while promoting lower cost and robust risk mitigation for lenders of every size.

Craig Focardi
Senior Research Director of Consumer Lending
CEB TowerGroup

Five Vital Components of Automated Loan Completion

Capture: Enhanced capture technology capabilities for extracting keyword data from scanned documents utilizing zonal OCR, intelligent templates, automated indexing and full document recognition should be readily available.

Track: Loan tracking automation should be designed and created to track and react – maximizing the consumer experience and minimizing the process timeline.

Review and Confirm: Quality control should ensure processes support compliance and requirements for providing loan-level data, remotely viewable documents, standardized packaging, pool reviews and electronic delivery. Quality controls should be integrated into the pre-close audit, post-close audit, data validation and overall document readiness.

Deliver: Processes and workflows should provide final validation and verify delivery of the completed loan document(s) to the correct destination. Delivery processes should ensure 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 multiple destinations, including insurers (for example, FHA, VA), investors, auditors and legal entities.

LoanComplete™ from Fiserv Facilitates Loan Completion

LoanComplete efficiently manages loan quality by capturing and retaining loan data, comparing and routing data, and tracking documents. Using a strategic approach to automation, LoanComplete minimizes loan processing time, improves portfolio value and reduces lender exposure. LoanComplete complements an institution's existing loan origination, loan servicing, regulatory compliance and secondary marketing systems. The LoanComplete solution suite overcomes the limitations of ad hoc and siloed processing, improves loan quality and ensures regulatory and institutional compliance.

The LoanComplete Advantage

- **Standardized Workflows:** LoanComplete combines human-, document- and process-centric workflows, enterprise content management and current best practices to provide a powerful turnkey solution. LoanComplete automates quality control processes into loan origination, servicing, regulatory compliance and secondary marketing workflows to enhance and optimize end-to-end lending operations.
- **Comparalytics for Loan Quality and Integrity:** LoanComplete allows for the viewing of all available loan documents at a glance. Documents are intelligently indexed with critical data extracted for easy comparison. Its powerful Comparalytics tool flags data mismatches early in critical processes to expedite correction and help maintain the integrity of loan data throughout the life of the loan.
- **Audit Trails:** LoanComplete offers complete audit trails to facilitate compliance, make reporting capabilities more robust and provide transparency into life of loan processes.
- **LoanComplete Loan Tracker:** Loan Tracker is an intuitive single-view interface that stores documents electronically in a central repository and categorizes and tracks loan portfolio content for all types of lending. It ensures loan documents and financial reports exist and are current, and assists in managing all borrower and loan portfolio information.
- **Increased Revenue and a Better Customer Experience:** LoanComplete detects document errors and matches 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.

LoanComplete Safeguards Loan Quality and Mitigates Risk

Thriving in today's lending space requires 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.

Financial institutions that take a centralized approach to managing loan quality and risk by implementing loan completion solutions such as LoanComplete will be better positioned to emerge as industry leaders. The loan quality assurance facilitated by LoanComplete will help institutions overcome systems limitations, leverage secondary market opportunity, avoid compliance issues and enhance the life-of-loan experience for borrowers.

About Fiserv

Fiserv is driving innovation in Payments, Processing Services, Risk & Compliance, Customer & Channel Management and Insights & Optimization. Our solutions help clients deliver financial services at the speed of life to enhance the way people live and work today. Visit fiserv.com and fiserv.com/speed to learn more.

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