Management Brief

The Profitable Loan Experience

Strategies for Improving Loan Origination Using Rules-Driven Business Process Management.

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The Customer and Lender Loan Experience: A Perfect Union?

What kind of experience do you want your customers to have when they wish to secure a loan? What experience do you want to promote to the many trading partners—brokers, processors, vendors, servicers, to name a few—that together help make your business attractive to customers? And what of your employees, who in the end are probably most responsible for the building blocks of what should amount to a positive customer experience and a profitable one for your business? The loan origination process, coupled with the front-end application experience, is arguably the single most visible and critical process in lending.

Lenders who constantly tune their origination process to respond to changing customer demands, economic up- and down-turns, competitive threats and new, innovative ways to package the loan experience are the ones that stay on top of their market. There are new approaches and enabling tools and methods that can help lenders improve the loan origination process so that it is agile, simplified and profitable. This Brief reviews some of these approaches that can be taken by lenders to deliver a profitable loan experience, for both their customers and bottom line.

Strategic Objectives – Tactical Survival

Competitive pressures, increased government regulations and tightening market conditions are driving many mortgage lenders to look at new ways of achieving common strategic objectives:

- Improve margins
- Reduce operations costs
- Focus on core competencies
- Minimize exposure to risk
- Increase business efficiency
- Improve customer service and retention

Representing a significant cost base for mortgage lenders, loan origination is one ideal target area to achieve these goals. However, increased processing and underwriting costs, greater competition and ever-increasing government regulations are key challenges that need to be addressed. In order to control costs, lenders need to not only look at reducing operating and administrative costs, but also put in place enablers that will allow them to make rapid changes to their processes and support infrastructure as changing market conditions, customer demands and competitive pressures dictate.

Customers expect a higher level of service and the loan application/origination experience has become a key differentiator to attract and retain business. Studies show that the longer it takes to underwrite a loan, the less likely a customer will complete the transaction or refer a friend as a potential customer. Not surprisingly, lenders are recognizing that in order to achieve cost control, improve margins and retain market share, efficient loan origination management is a business imperative to deliver bottom-line impact.

The Solution: Automating the Loan Origination Process

The mandate for loan origination departments today is to deliver higher levels of productivity and efficiency to enable faster, better-informed decisions; minimize exposure to risk; and compress loan origination processing cycle times to reduce costs and provide greater customer satisfaction.

Managing business processes and business rules is absolutely critical in a high-volume processing environment such as loan origination. Paper-driven processes that involve manual intervention, reviews and approvals contribute to errors, delays for the customer and increased costs for lenders. As interfaces between lenders, their outside suppliers and trading partners are predominantly manual or at best semi-automated, this can result in poor application tracking, poor data integrity, and lack of management information.

A convergence of enablers, which include business process management systems, rules engines and application component architectures are allowing for the re-design of the loan origination process to make them more responsive and agile to market drivers.

Anatomy of Redesign

In redesigning the loan origination processes, a comprehensive approach is required to help lenders realize the improvements needed to compete in the marketplace. Lenders should partner with firms that have this experience and can leverage proven methods and technology, which can help accelerate implementation timeframes and deliver a sustainable marketplace advantage.

By implementing rules-driven business process management and component architecture, lenders can obtain greater process efficiencies through:

- Optimum process automation, minimizing the number of hand-offs required and a reliance on manual processes
- Straight-through processing of straightforward/simple loan applications and proactive management of more complex applications
- Tighter process integration of both external and internal participants (i.e. trading partners), ensuring greater control of the loan origination supply chain
- Process standardization, enabling mortgage processors to execute best practices and achieve more consistent loan origination outcomes
- Process monitoring of the performance of the loan origination processes against Key Performance Indicators (KPI)

Needs and Suggested Tactics

Mortgage Industry Need	Suggested Tactics
Lower administration and operational costs.	Optimize automation of the loan origination and secondary mortgage processes, including: ▪ application handling ▪ underwriting ▪ credit report ordering ▪ regulatory compliance ▪ fraud prevention ▪ servicing/fulfillment
Increased speed, accuracy and throughput.	Fast-track processing of certain applications and workload balancing to ensure distribution of work is allocated as efficiently as possible.
Mitigate risk.	Minimal manual intervention and individual audit trails for every application processed; automated fraud due diligence.
Maximized use of employee skill sets.	Automation of administrative steps so that staff can concentrate on higher value work or more complex loans; steering loan products and other variants (such as documentation type, geography) to the right resource.
Reduced processing cycle times.	Automated allocation of applications to mortgage processors.
Better servicing of customers.	Self-servicing, enabling borrowers, lenders, loan officers and brokers to submit and track progress of applications online.
Better integration with trading partners.	A web services capability that defines communication scenarios (i.e. loan upload, servicing download) and integrates trading partner business processes into the overall loan origination process.
Faster, more accurate underwriting.	Rules-based scoring of loans; allocation of loan products to the underwriters trained on those products.
Imaging of loan applications and loan package documents.	Architecture that incorporates imaging solutions into mortgage processes.
Better data integrity.	Rules-based data analysis based on loan product, documentation type, geography, client, borrower profile, loan amount, compliance laws and other numerous factors.
Automated and less expensive AVM services.	Round-trip AVM ordering/fulfillment and integration into loan process.
Tighter integration of compliance into loan process.	Incorporation of compliance services (i.e. outside vendor or internal process) into mortgage process.
Adherence to pre-defined service levels.	Ability to set deadlines and prioritize work using business rules.
Leverage investment in existing legacy systems.	An application wrapper that utilizes legacy functionality yet allows growth into a flexible service-oriented architecture, where new applications and processes can be rapidly integrated.
Measure and monitor performance of business processes.	A mortgage desktop dashboard to track the overall performance of processes and monitor key performance indicators.

Benefits

Lenders following a rules-driven business process management approach can see benefits in the following areas:

Control operational costs

- Lower unit costs by increasing the efficiency of all participants involved in processing applications.
- Create cost efficiencies by consolidating disparate systems and allowing effective communication between legacy and third party systems.
- Reduce cost and 'time to benefit' through rapid implementation and deployment of best practice process models.

Reduce risk

- Decrease error rate by reducing the amount of manual inputting required.
- Less reliance on manual, paper-based processes.
- Improve consistency by standardizing and automating processes based on pre-defined rules.
- Automated validation based on pre-defined business rules to identify high risk loans.
- Improve loan origination practices through enhanced automation in order to limit unnecessary risk.
- Getting it right first time every time by delivering compliant, accurate and consistent outcomes.

Improve efficiency and speed

- Improve efficiency of the application process by increasing productivity of the loan origination processors handlers.
- Faster application turn-around time.
- Enhance self-service for customers and agents through online application tracking.
- Streamline and rationalize loan origination process steps.
- Compress end-to-end process cycle time.
- Eliminate repetitive, mundane procedural work.
- Eliminate inaccuracies of core business processes and significantly improve business performance.
- Reduce incoming queries as applications are handled faster.

Improve Customer Service

- Increase client satisfaction, generating an improved percentage of repeat business.
- Establish consistent, 'best practice' loan origination outcomes.

- Access information immediately to respond to customer queries.
- Set deadlines to ensure pre-defined SLAs are met.

Greater Visibility

- Deliver management information and audit trails for monitoring KPIs and fraud detection.
- Enhance tracking and management of applications within the process.
- Identify bottlenecks.
- Establish end-to-end visibility of work by providing audit trails of all applications processed.

Better Use of Resources

- Improve management of peaks and troughs in business through workload balancing.
- Free up staff to focus on higher value knowledge-based work.
- Leverage and extend the life of and investment in existing legacy systems.
- Flexibility to modify processes in order to react quickly to changing market conditions.
- Extend processes into the distribution network and third parties i.e. borrower, loan officer, processor, broker, lender, underwriter.

Proven, robust and scalable process technology - unusual circumstances that may lead to increases in the volumes of applications to be processed can still be managed effectively without impacting day to day performance on the business.

About the Author

Dan Drislane is the founder of Frontier Strategies, Inc. in Livingston, Montana, an IT consulting firm begun in 1991 in Michigan. He has over 20 years of experience in business analysis, business process analysis and project management. Dan's work with clients focuses on two goals: transforming the IT organization's culture so it will be more agile and accountable to business; and integrating an organization's vision and supporting business processes with its enterprise business and system architecture.