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AUTOMATING MORTGAGE LOAN PROCESSING: HELPING TO IMPROVE EFFICIENCY AND CUSTOMER SATISFACTION WHILE LIMITING CYCLE TIME AND COSTLY ERRORS

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Mortgage companies are keen to improve customer experience and efficiency – while trying to stay compliant with banking, mortgage and consumer regulations – and are looking for technology to assist them.

In an era of heightened customer expectations for convenient digital solutions and fast responses, the mortgage loan process remains highly paper-based.

The size and complexity of mortgage applications, and the multitude of tasks loan processors must complete, makes it nearly impossible to eliminate manual work. The challenge is to insert documents into an orderly workflow, using imaging and tracking technology to help streamline processing and reduce human error.

A sophisticated business process solution – customized and complementary to an existing loan origination system – can help structure the application cycle to help make sure that information is valid and available, disclosures are issued on time when loan terms change, and needed documents are on hand at closing. With digital tracking, such a solution can help monitor performance and highlight deficiencies. Further, automated alerts and comprehensive visibility into the loan package can assist with streamlining communications with borrowers.

Overall, an efficient process can lead to a shorter loan processing cycle time. A shorter cycle time can help loan originators close within the initial rate lock period and can help borrowers or the lender avoid fees to extend rate locks. Also, an efficient process can create a better customer experience, and satisfied customers can lead to more business.

Indeed, business process automation appears to have vast, untapped potential in the mortgage industry. Many originators express widespread interest in improving their current systems, according to surveys of hundreds of mortgage industry executives and managers. The research unit of SourceMedia – the publisher of *American Banker* – conducted two online surveys on behalf of Canon U.S.A., Inc., to develop a picture of the current state of automation in the mortgage industry, and to identify originators' pain points and priorities.

Survey respondents include a large contingent of chief and other "C-suite" executives, in addition to mortgage executives and managers in various other roles in customer service, information technology, compliance, and other functions. The mortgage banks, lenders and brokers; retail and commercial banks; credit unions; and other financial institutions represented in the surveys range across the asset-size spectrum. They maintain loan processing staffs of anywhere from one to 10 employees to more than 100.

Survey respondents describe processes with large amounts of manual work and the possibility for bottlenecks to develop across the loan processing cycle. Incidents like expired rate lock periods are frequent and costly. Mortgage companies are keen to improve customer experience, and efficiency – while trying to stay compliant with banking, mortgage and consumer protection regulators – and are looking for technology to assist them.

STRUGGLING WITH BOTTLENECKS: PAIN POINTS IN LOAN PROCESSING

Survey responses bear out the heavy manual component of work done in every stage of the mortgage loan processing cycle, and how challenges posed by so much paper and so many manual tasks can interfere with the loan process, which can negatively impact customer satisfaction, firm reputation, and performance. In fact, large numbers of mortgage industry executives in the survey say that key processing tasks – such as reviewing documents, verifying data, and requesting appraisals and title reports – are mostly done by hand at their companies. For example, 49% of respondents say that document review at their firms is all or mostly manual, nearly four times the 13% who say document review is all or mostly automated. Overall, 97% of respondents say document review involves at least some manual work at their firms.

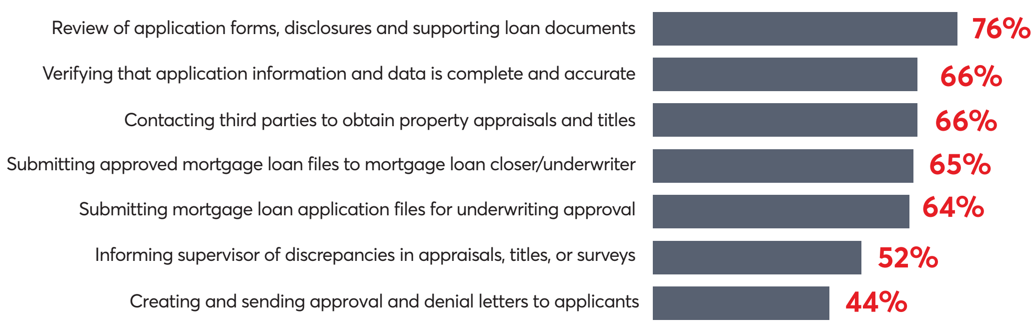
Underscoring the immense complexity involved in originating mortgages, mortgage industry executives say that virtually every step in the loan processing cycle can become a bottleneck, with document review topping the list.

The imperative to carefully structure key processing tasks with a sophisticated pipeline management and tracking system is clear, as executives widely recognize the importance that their firm's mix of manual and automated processes has in determining performance in key areas. Among respondents who say data verification at their companies is all or mostly done by hand, roughly two-thirds rate their data verification practices as impactful on reputation and customer experience. More than 70% say the same about regulatory compliance and loan processing cycle time.

Underscoring the immense complexity involved in originating mortgages, mortgage industry executives say that virtually every step in the loan processing cycle can become a bottleneck, with third-party requests for items like appraisals and title reports near the top of the list (see Figure 1). About two-thirds describe third-party requests as a bottleneck, nearly identical to the proportions who say the same about data verification and submitting files to underwriters. Asked to describe why bottlenecks develop at each stage, respondents frequently point to process inadequacies. One respondent cites redundant data verification procedures carried out by loan officers, processors, and underwriters, which can generate multiple requests for the same documents, such as pay stubs. Another respondent attributes delays in reviewing documents to limits in technology – business analytics can be instrumental in identifying and ameliorating frictions.

Figure 1. **Loan Processing Bottlenecks**

Respondents who described each task as a moderate or high bottleneck

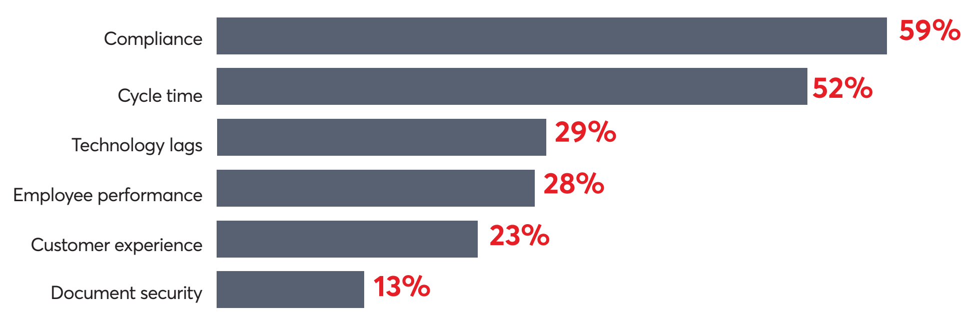


Source: Canon Loan Processing Study, SourceMedia Research, March 2016

The bottom line is that frictions in processing mortgage applications are causing distress in the mortgage industry. Majorities of respondents describe regulatory compliance and loan processing cycle time as significant pain points (see Figure 2).

Figure 2. **Loan Processing Pain Points**

Respondents who described each item as a top pain point



Source: Canon Loan Processing Study, SourceMedia Research, March 2016

In addition to impacts on corporate reputation and customer satisfaction, the consequences of weaknesses in loan processing systems can be measured in direct costs generated by a range of typical errors.

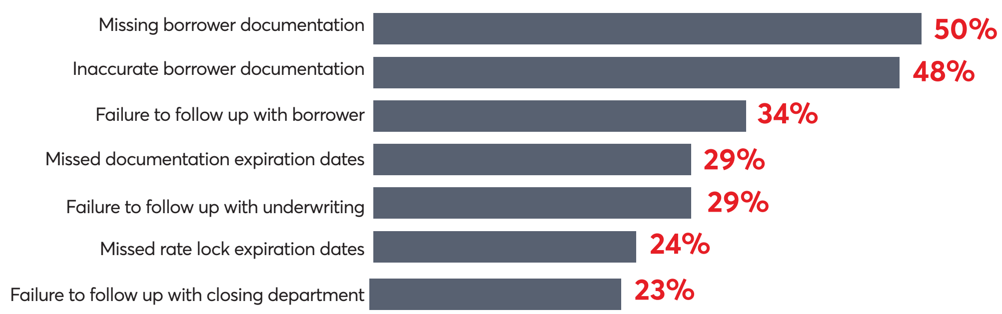
Only about half of executives in the survey report being satisfied with their firms' application processing systems, and critiques by dissatisfied respondents can be lacerating. A number of respondents blame deficient technology for things like loan processing cycle times that lag industry standards. "Lack of investment in technology applications and infrastructure has impacted the ability to automate and streamline processes," one respondent says. "In addition, less than ideal employee capabilities are also adding to extended cycle times and low customer satisfaction."

THE DIRECT COSTS OF INEFFICIENT PROCESSING

In addition to impacts on corporate reputation and customer satisfaction, the consequences of weaknesses in loan processing systems can be measured in direct costs generated by a range of typical errors. Half of the respondents at financial institutions with less than $1 billion of assets report 10 or more incidents a month involving missing borrower documentation – a significant number of errors for small institutions. About a quarter of respondents at lenders in the same size category report that incidents like expired rate locks and missed document expiration dates occur at the same frequency (see Figure 3).

Figure 3. **Loan Processing Incidents**

Respondents with less than $1 billion of assets reporting 10 or more incidents a month in each category



Source: Canon Loan Processing Study, SourceMedia Research, March 2016

Furthermore, mortgage industry executives say that the costs of such errors can be bruising, and sometimes devastating. For example, among financial institutions with less than $1 billion of assets, nearly a fifth of respondents estimate that costs from compliance and processing errors range from $100,000 to $1 million and above. Major losses from expired rate locks were also frequent.

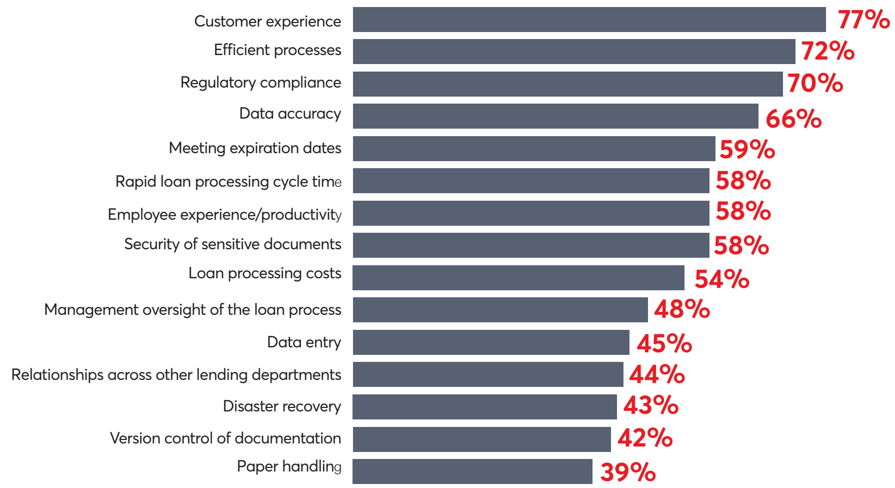
INVESTMENTS IN NEW LOAN PROCESSING TECHNOLOGY AIMED AT CUSTOMER SATISFACTION AND EFFICIENCY

Many respondents say they must improve customer experience and internal efficiency to be competitive. In order to do so, loan originators continue to invest in loan processing system improvements. More than half of executives in the survey report that they are currently deploying new technology to improve loan processing workflow, had done so within the last year, or plan to soon. About 41% report spending $50,000 or more on loan processing technology in the past, and 38% plan to make technology expenditures in the same range in the near future. Loan originators are seeking out loan processing technology to help raise customer satisfaction and efficiency, and to help with aspects of regulatory compliance, which they say are their leading priorities in improving loan processing (see Figure 4).

Where loan originators are willing to acknowledge substandard performance, good technology and processes are frequently identified as the solution to improve performance.

Figure 4. **Loan Processing Priorities**

Respondents who described each item as a high or critical priority target for improvement



Source: Canon Loan Processing Study, SourceMedia Research, March 2016

A specific target in improving efficiency is loan processing cycle time. Mortgage companies are seeking sharp reductions in the time it takes to process a loan from prequalification to closing. All respondents say they want to reduce cycle time by at least one day, with about 35% hoping that implementing process efficiencies can slice as much as 5 days off of the cycle time, and another 30% hoping to shave off 6 to 10 days. Indicating how far many mortgage companies have to go, the rest – 35% – hope to reduce cycle time by 11 days or more.

A large plurality of respondents also say they are going to expand processing staff, with 48% expecting to add employees over the next year, while just 7% anticipated reductions. (The rest of respondents expect headcounts to remain the same.) The responses appear to reflect the reality that mortgage processing will always entail a large manual component, and that complete automation is unrealistic.

Nevertheless, where loan originators are willing to acknowledge substandard performance, good technology and processes are frequently identified as the solution to improve performance. The responses underscore the idea that while skilled staff is indispensable, strong workflow technology and processes are needed to help organize their work efficiently.

For example, about a fifth of respondents are willing to characterize their efficiency and loan processing costs as poor. This is a large fraction compared to the proportion of respondents who give themselves low marks in other performance areas. Among respondents who give themselves low marks in efficiency and loan processing costs, about 70% view technology or automation as a way to improve performance, compared with about a third who are looking toward staff increases.

Executives express strong demand for technology that can help support streamlining the application process.

SEARCHING FOR LOAN PROCESSING TECHNOLOGY

The march toward shorter cycle times and fewer errors has put many mortgage companies in the market for loan processing technology. About a third of the respondents say they have an intense interest in upgrading their loan origination system (LOS) or adding to an existing platform with a complementary front-end system, and a fifth are keen on replacing their existing LOS altogether. Among respondents highly interested in adding complementary systems, almost 90% say they plan to do so in the next twelve months.

When weighing technology options, mortgage industry executives say they are looking for systems that will help them achieve improved performance in the same areas they have prioritized for their mortgage processing operations overall: compliance, efficiency, customer experience, and reducing expenses (see Figure 5).In open-ended responses, executives express strong demand for technology that can help support streamlining the application process.

Figure 5. **What Loan Originators Want**

How important is each of the following when considering a loan origination system?

Source: Canon Loan Processing Study, Part 2, SourceMedia Research, December 2016

CONCLUSION

The immense complexity of the mortgage application process means that the work of loan originators will almost always involve a large manual component and the need for skilled staff. But to be competitive – and to meet growing consumer expectations for responsive, orderly service – mortgage companies must organize workflow using business process systems that can help reduce human error and boost loan processing efficiency.

Business process solutions that leverage imaging and tracking technology, automated task alerts, and performance-monitoring capabilities can help keep mortgage applications on track throughout the loan processing cycle. They can complement and enhance existing loan origination systems and help improve customer service, shorten cycle times, and reduce costly oversights.

Survey results show that mortgage industry executives are ready to make substantial investments to improve their company's technology and systems. It is simply a matter of finding the solution that is best for them.

METHODOLOGY

SourceMedia Research conducted two online surveys of mortgage professionals using the *American Banke*r and *National Mortgage News* opt-in subscriber lists. The surveys, commissioned by Canon, U.S.A., Inc., were conducted in March and December 2016 and had 310 (140 at banks with more than $1 billion of assets) and 220 completes, respectively.

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