

Business Process Management Technology and The Residential Mortgage Finance Process: Opportunities for Cost Savings and Increased Efficiency

As homeowners, my wife and I recently completed a refinancing of our residence. Going through this mortgage refinancing process has provided me with first-hand experience to assess how business process management technology, a proven technology used in other industries, could have improved the inefficient, manual, paper based process we encountered.

The process began with our filling out the standard uniform mortgage application form and submitting various backup documents such as a recent pay stub and last year's federal tax return. These paper documents would be the basis for the underwriter to approve or disapprove our application, but as paper documents they would also become a major source of inefficiency as the process moved forward.

Two weeks after submitting our application, I received a letter from the title insurance company that said: "enclosed please find (1) copy of the revised report of title in connection with the above referenced property". I read the letter but did not look carefully at the attachments. Five weeks later with interest rates going up, the mortgage lender called to say that they had not yet received a copy of the title commitment, and closing within the 60 day window would be difficult. I checked and noticed that the title insurance company had mistakenly sent all three copies of the title report to me. A clerical mistake nearly resulted in my losing a very attractive interest rate. And the mistake was clearly related to the inefficiencies of using paper to document and complete transactions. Until the mortgage process moves to a digital mode, and until business rules can be specified so that success or failure no longer depends on how good or bad a day a clerk is having, this type of error will repeat itself time and again.

Another problem arose in connection with arranging for me to use a power of attorney at closing to sign for my wife. The mortgage company contacted the title insurance company and arranged for them to send me their approved power of attorney form. When I arrived for closing, the title officer was unable to proceed because the mortgage company had failed to fill out the documents showing me as having power of attorney to sign for my wife. As a result, the closing was delayed thirty minutes.

I had my first look at the closing documents as we all sat around the closing table. The process would have been much more efficient if the documentation had been in digital form and shared with me ahead of time over a secure, confidential web page. Another thirty minutes was lost by all of the parties.

There are several ways that a business process management (BPM) technology solution could improve the residential mortgage closing process, and help avoid the problems I encountered. There are several BPM products now available that offer various opportunities for improved efficiency. Most advanced BPM products make it possible to

map and configure any business process, define roles for users and specify the business rules that are to be followed. These technologies are truly revolutionary since they allow organizations to easily modify a process at any time with minimal effort. Additionally, these products typically come with strong integration features allowing a process to be tied into existing databases and other legacy systems.

A mortgage lender can use BPM technology to map, configure, and deploy the loan approval and document production process. BPM makes it easy for documents such as the uniform mortgage application form, pay stubs, tax returns, etc to be easily converted to a digital format. For example, my company, Coriando LLC, uses Enj, a BPM product developed by BISIL that won an award nomination at Linux World 2004 along with products from Microsoft and BEA as one of the best systems integration products. Using Enj as its platform, Coriando is able to assemble all relevant documents to a transaction in one central easy to access digital location, and also to configure and automate the specific business process needed by the customer.

The mortgage application process is ideally suited for this solution. Since most mortgage applications are still filled out in paper form, the first step is to convert this information into a digital format. Hard copy mortgage applications can be inputted into our BPM software via a fax sent to Coriando's toll-free fax number where our back office staff transcribes the data into digital forms. Related documents can also be faxed and automatically assembled as digital attachments to the mortgage application form. Our system is essentially a platform that ties into a mortgage company's existing systems. Having a system like this in place would have vastly improve processing time and remove the documentation errors that I experienced.

Underwriters would receive notice of each new transaction electronically and be able to access all of the papers needed to make an underwriting decision with the click of their mouse. Once the underwriting decision step was completed, the transaction would be automatically moved along to the operations area where the appropriate documentation would be assembled and then distributed electronically to the borrower and the title officer responsible for conducting the closing. Once the loan was closed, the transaction could be forwarded electronically and assembled with other loans for securitization. Also, servicing of the loan would be much more efficient with all of the files in digital format and easily accessible as needed.

BPM is also a good thing for the customer. In my case, over five weeks went by from the date that the title commitment was requested and when it was eventually received by the mortgage lender. With BPM, an alert could be set to notify the person at the mortgage lender handling the loan that the title company had failed to deliver a title commitment by a date certain. Both the mortgage lender and the title insurance company could substantially improve the level of customer satisfaction with the automated features available through BPM. Customers would appreciate an acknowledgement that the title request has been received and that it is being worked on.

BPM also provides a number of useful performance measurement tools for senior management. A manager can view the status of the entire mortgage loan process and see

the status of any given loan application or the status of the whole pipeline of loans in process. These reports can also be set for automatic delivery on a daily, weekly, monthly or quarterly basis.

BPM requires no programming, and makes it possible to revise a process at any time. It also can be configured to allocate work items to the individual with the least number of items in their “in basket”. BPM also makes it possible for the mortgage lender to reduce its costs of operations by having a firm like Coriando perform those portions of the mortgage application process that require manual data entry. And because with BPM it is possible to integrate with a mortgage lender’s existing systems, the need for multiple keying in of data is eliminated.

BPM facilitates improving the quality of service offered both in terms of compressing cycle times, but also by improving quality control efforts by automating compliance with the firm’s operating policies. Managers receive alerts when bottlenecks occur, and business rules can easily be programmed into each process. My missing title commitment would have set off an alert much earlier in the process.

Working with paper files is highly inefficient, especially when information is requested on the status of an account. It takes time to find and look at physical copies of a file, and then to re-file the information. BPM eliminates this problem making file retrieval and storage much more efficient. Manual, paper based systems don’t handle exceptions very well, such as my need for the documents to be prepared for a power of attorney closing. BPM, however, can easily be used to set up systems to handle such exceptions.

BPM can also be used to share the closing documents electronically with all of the parties. If the documents had been distributed ahead of time, the title officer would have been able to spot the fact that the papers had been incorrectly prepared. The title officer spent thirty minutes redoing the documents resulting in thirty minutes of lost time for me as the customer, as well as for the title officer. From a business point of view, inefficiencies at the closing table hit the bottom line directly for both the lender and the title company since it means that fewer loans get done during the course of a day.

The mortgage loan industry and the related title insurance business are bogged down with numerous old-fashioned paper-based, inefficient processes. New technologies now exist, however, that can be used to significantly improve operations, produce substantial cost savings, and greatly improve customer satisfaction.

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