

A Risk-Reducing Solution

Whether it's created when providing a loan to a new customer or when implementing new procedures for compliance, there's a four-letter word that permeates the mortgage industry: risk. Effectively managing risk at all levels is what separates the top lenders from the rest of the pack. One approach these leading lenders are taking to accomplish this is to integrate technology with their paper-intensive processes. Because loan processors, underwriters and managers must handle daunting stacks of paper loan files every day, focusing on reducing risk in this area makes perfect sense. The volume of incoming paper by itself inevitably causes delays in routing and processing, as well as occasional inaccuracies in loan documentation. Securing and storing paper loan files is certainly not the only risk facing lenders today, but it is a significant one. So finding a way to manage it is a worthwhile challenge. More and more companies are beginning to incorporate imaging and workflow automation (IWA) solutions in order to take paper out of the process, reduce costs and improve productivity.

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Three mortgage industry players discuss the benefits of using imaging and workflow solutions.

BY RICK KUSHEL

A growing area of discussion today centers around whether to deploy IWA technology in-house or use a services-based approach. What it often comes down to is a case of cost vs. customization, time to productivity vs. control, accessibility vs. security, on-demand vs. on-premise, and so on.

For many organizations, taking the traditional approach to imaging and workflow automation by building an in-house infrastructure is preferred. In such scenarios, the on-premise solution provides the organization with direct control over the entire range of document-management functions using internal resources. In addition, organizations may feel that deploying an integrated, highly customized imaging and workflow solution enables them to better differentiate themselves from their competitors. If a company has complex integration and customization needs, and has sufficient time to deploy an in-house solution, they may be better served by an in-house deployment.

In-house solutions for managing documents entail building and maintaining an internal document-imaging infrastructure, including hardware, software and personnel. With an in-house system, documents are first scanned by an internal conversion group, then lenders store and access documents electronically on their internal servers. After scanning, the hard-copy records are either stored internally or with an outsourced vendor.

Another option lenders are increasingly using is a software-as-a-service (SaaS) model, which enables organizations to eliminate the friction points of managing loan documents while retaining control of processing business information. Whether a SaaS solution or an in-house system is used, these methods typically support a company's business strategy by creating, reviewing and storing content in a way that adheres to regulations and minimizes risk.

One thing to consider, though, is that the risk of failure is inherently lower with a SaaS provider because specialized expertise and experience with thousands of users offer a significantly higher potential for success. The cost of failure is lower because there are no large investments in infrastructure and personnel with this approach.

A SaaS solution offers security, dependable 24/7 system access and user support, and flexible and scalable service offerings. It requires no hardware or software to be purchased, and there are usually no ancillary upgrade fees.

The strategic focus of most businesses does not logically map to gaining a core competency in operating a comprehensive IWA infrastructure and its associated support requirements. Any enterprise considering deploying an in-house IWA solution needs to evaluate whether this fits in with the broader strategic objectives of the organization.

From the point of view of the enterprise, the SaaS provider has essentially infinite capacity—so there is no danger of overloading the infrastructure. The enterprise can choose any level

of service at any time, and pay only for the services used. To remain competitive, a SaaS provider must constantly augment its offerings based on the latest developments in a spectrum of technologies, including workflow automation, document-capture and indexing services, business continuity and disaster recovery.

Cenlar's approach

Discussing the reasons why Ewing, New Jersey-based Cenlar FSB selected a SaaS solution, Steve Gozdan, Cenlar's senior vice president and chief financial officer, says, "Outsourcing is a concept that we believe in. We don't feel like we have to own and control everything. SaaS fits that business mentality. There's a company that can do it better and has a core competency [in it], which relieves us of the burden of having to install, upgrade and maintain an in-house system."

Cenlar is a wholesale bank that focuses all of its energy on subservicing mortgage loans. It subservices more than 275,000 loans totaling approximately \$50 billion. With the introduction of new client programs and an anticipated influx of new business that would dramatically increase paper processes and its risks, Cenlar began to explore new technologies and business process tools.

Jeanne Bader, senior vice president, director of loan servicing at Cenlar, explains the risks she foresaw if the company continued with paper-based processing: "The three areas of risk we wanted to minimize from our paper-based processes were financial, compliance and customer satisfaction. In addition, the risk of fraud overhangs these three areas. As far as financial risk, we have to ensure that the loan is serviced in accordance with the agreement. When we're dealing with prepayment penalty provisions or the various ARM [adjustable-rate mortgage] plans, there are massive amounts of paper to manage and details to coordinate. And if we are unable to answer questions because we can't locate the paperwork, we run the risk of lower customer satisfaction," she says.

Cenlar's previous workflow method, which involved the manual collection and review of loan servicing files, became increasingly inefficient and labor-intensive. The process of receiving, stamping, logging, filing and transferring documents within the servicing systems was draining corporate resources. The company also faced the critical issue of accessibility.

One of the differentiated services Cenlar provides is a data-verification process for new loans boarded. As part of this service, Cenlar reviews all or a selected number of data elements to ensure that the information being transferred to Cenlar is 100 percent correct. Throughout this servicing review process, there was a growing need for access to documentation and information within other servicing units, as well as with tax service vendors.

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Additionally, making sure this information was secure became even more critical with the passage of the Graham-Leach-Bliley (GLB) Act and other more recent requirements. It was clear that a workflow process was needed within Cenlar to streamline production. System enhancements were also required to increase compliancy while providing the necessary access to information.

Cenlar decided that an IWA SaaS solution would solve the document-management and workflow challenges it faced, while also allowing Cenlar to continue to focus on its core competencies. With the solution, documents would be imaged and accessible online, while workflow would be customized to the company's business rules.

After careful evaluation, Cenlar implemented ASPEN 360™, from Archive Systems Inc. It converted Cenlar's paper-intensive processes associated with mortgage origination, loan servicing, post-closing and loan delivery into a paperless electronic process.

With this change, the New Loan Servicing Department was able to reduce the four-step receiving method to a single-step process. Files are now simply labeled by their business partners with a predefined barcode sticker and sent directly to the vendor company. The hard-copy files are then converted to digital images. Cenlar receives daily automated e-mail notifications as new documents are added to the imaging system. Data are then delivered electronically to Cenlar's data warehouse, and loans are delivered automatically to the workflow process after all required documents are received.

"We have been migrating to this new process with our clients over the past three years," Bader explains. "It has allowed us to become 25 percent more efficient in regards to staffing. However, the digital capture of images provides benefits beyond new loan setup. Imaged documents can be used throughout the life of the loan by customer service agents to help answer borrower questions, and positions us better for business continuity."

With all documents available instantly online, the solution can minimize the risk of missing documentation during an audit. Previously, an audit would require hard-copy records to be pulled as auditors arrived to review loan information. This increased the chances that documents could be lost or misplaced due to the number of times paper had to be filed. The new solution allows auditors to view the documents online so there is no risk of misplacing the images.

Cenlar has been able to take full advantage of the hosted solution by providing all servicing units and tax service vendors with secure access to the imaged files. In the previous paper environment, the property description was manually copied, labeled and manually bundled with other property descriptions to be mailed to the tax vendor. The period from receipt of a loan file until the tax vendor received the property descriptions was normally four to five days. In higher-vol-

ume periods, copying the property descriptions took a back seat to getting the loans boarded in a timely manner. In those instances, a two-week span between receipt of the loan file and the vendor receiving the paper property descriptions was not unusual. In the hosted environment, the vendor receives an extract from the imaged documents loaded into ASPEN 360 nightly, and has those images the next day to complete the tax-contracting process.

The benefits of imaging and workflow technology

"The use of imaging and workflow technology made a lot of sense on the front-end side of this business," Gozdan adds. "Once we introduced these applications and moved from a manual environment to this automated environment, we were able to achieve costs savings. We were concerned about being a paper-based shop and having all of this paper from the loan origination process spread all over our production floor. The movement to an image-based system allowed us to put in passwords and make sure that only the people who needed to see the data were the ones who were getting it. Security and privacy have been significantly boosted."

Gozdan says, "Not only did we achieve our company goal of deploying a Web-enabled workflow and imaging tool that integrated with our clients and provides for improved quality control, it also provides us the additional advantage of disaster recovery, GLB compliancy and increased productivity. We decreased the amount of time spent reviewing each loan, allowing us to increase the overall volume of loans reviewed."

Gozdan adds, "Based on an analysis by our in-house Process Improvement Group, we determined that the average savings per loan reviewed is five minutes. This translates to an average processor having the capacity of

reviewing about five additional files per day, or about 125 per month. On a department level, this translates into an increased capacity of approximately 2,500 files."

Cenlar continues to look for new ways to reduce risk. "Cenlar has an operational risk-management department, a process-improvement group and a project-management office that work in conjunction with the business team to figure out ways to complete processes more effectively and securely," Gozdan says.

"These groups examine the risk-management side of our business all the time. Part of the value we bring to our clients is to allow them to think through and manage those risks that aren't readily apparent."

New South Federal Savings Bank

"We selected a SaaS solution because there is less complexity, less technical overhead and lower costs involved," says David Cole, senior vice president for technology, marketing and deposit services at New South Federal Savings Bank,

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Birmingham, Alabama. New South Federal operates 40 loan production offices in 13 states.

New South Federal's residential mortgage lending efforts involve the origination, purchase and servicing of residential mortgage loans through loan origination offices and wholesale sources. It achieved \$830 million in loan production in 2005, and services a mix of conforming, nonprime and government loans totaling \$1,435,000,000. There were 471 total employees supporting the total operation at the end of the year. The savings bank had evaluated various options for document imaging and workflow automation with the intent of providing authorized New South Federal staff with secure, desktop access to documents based on their role within the bank.

New South Federal also sought to provide designated investors, wholesalers and other authorized third-party entities with Web-based access to images and information pertinent to their business relationship with the bank.

"Imaging and workflow automation can definitely have a

positive impact when the focus is on big risk," says Cole. "These risks include credit, liquidity, compliance and reputation. Imaging specifically addresses compliance and reputation risk. While it doesn't have an impact on credit risk, our SaaS solution provides a feature that allows us to deliver loans to an investor in a much shorter period of time. This, in turn, allows us to achieve a better execution price, which addresses liquidity." New South Federal experienced a reduction in delivery time to investors of approximately 12 to 14 days. Its goal is to deliver a loan to the investor seven days after closing.

In its initial search, New South Federal was more focused on finding a solution that would increase efficiency rather than reduce risk. Cole explains, "The SaaS solution will enable us to improve process efficiencies throughout the bank, while reducing expenses and enabling growth. Risk reduction is an added bonus."

One example of this reduced risk is in the deposit area, where the bank has more than 25,000 deposit accounts. All of the signature cards have now been imaged and are accessible through the Web in a secure, online repository. "We are able to quickly verify the signature of someone wiring money. This reduces the risk of identity theft and helps in account resolutions," says Cole.

With the ability to find documents instantly online, the risk of misplacing files is reduced. This is especially important during audits. "The solution has had a positive impact on our overall ability to deal with audit issues, because we are able to find the documents online that we need by using its comprehensive search features," Cole says. If a paper document is misfiled, an intensive manual search must be conducted. But with an automated solution, browser-based search screens are used to quickly locate all information

stored in the online repository.

"Another risk factor that the on-demand model has reduced is in the area of disaster recovery," Cole adds. "Previously, we didn't have backups of the signature cards—so in the event of a fire, we could have lost all of those documents. Now we have digital backups of all the cards, which are stored in the service provider's redundant data center with 99.9 percent system uptime."

UBS Securities

Another company that improved efficiencies and reduced risk by implementing a SaaS solution is UBS Securities LLC, Stamford, Connecticut, a leading wealth manager, a top-tier investment banking and securities firm, and a global asset manager. The company is constantly looking for new ways to improve operational efficiency, which goes hand-in-hand with reducing risk.

"UBS is focused on developing a paperless origination process; however, the industry is still very paper-intensive.

Taking advantage of an imaging and workflow solution offered in a SaaS model has enabled us to effectively manage this risk," says Eileen Lindblom, UBS' executive director of mortgage finance.

By integrating document-management technology using a document-process outsourcing provider, UBS is able to streamline its acquisition and sale process while gaining secure 24/7 access to documentation online through a Web browser. At the same time, it was also able to maintain loan documentation electronically, which improves the efficiency of servicing and loan sales.

One of the biggest issues that a mortgage company such as UBS has to deal with is missing documentation. From a risk standpoint, if documentation gets lost in the process, it could ultimately

result in an inability to effectively manage the loan and enforce its terms. If a company doesn't have the information available, that could also preclude it from selling the loan or getting the right price based on the current value.

Executives from Cenlar, New South Federal Savings Bank and UBS have experienced the benefits of adopting a SaaS model for document processing. The approach has enabled them to focus on their core business initiatives rather than integrating and managing software, or managing multiple vendors for scanning, imaging, workflow and document storage. While this approach may not be the right answer for every lender and servicer, it has proven it holds merit for these three significant industry players. **MB**

“Imaging and workflow automation can definitely have a positive impact when the focus is on big risk,” says Cole.

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