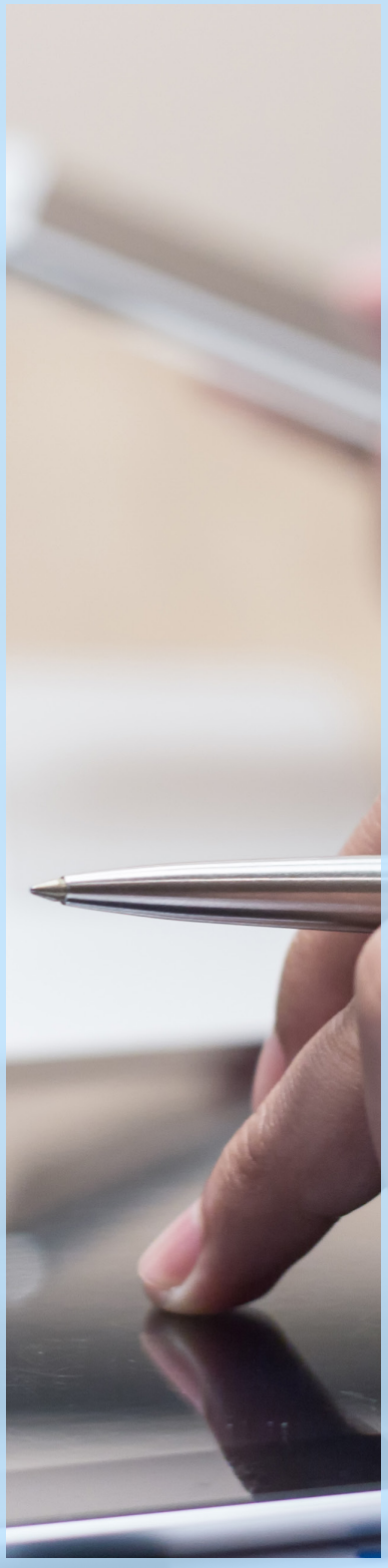
SERVICING MORTGAGES IN THE DIGITAL AGE



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For a mortgage lender, the work doesn't stop at originating a loan. Once it disburses a loan, a bank has to service it throughout its decades long tenure, and take appropriate action should the borrower default on repayment. The bank can transform this complex, effort-intensive activity by employing digital tools and technologies in several places.

In reconciliation: At the broadest level, loan servicing is about receiving repayments from borrowers and distributing that money among various recipients. After retaining its fee, the servicer sends the principal and interest components to the purchaser of mortgage-backed securities, and taxes and insurance to the concerned agencies. On average, this cycle takes 45 days, largely on account of cumbersome processes, and the need to access multiple disparate systems for reconciling data, both of which involve considerable manual effort. In a survey of 300 loan servicing officers, 30 percent said that their organizations used mostly, or entirely, manual processes in managing lien releases and documentation processes[1]. The effort and time wasted in manual processing can be reduced significantly with the help of technologies, such as Robotic Process Automation (RPA) and Straight Through Processing (STP). For example, one of our clients has managed to free up US$ 10 million from cash advances, and shorten the cycle time by 33 percent to 30 days, with the help of these solutions.

For self-service: Mortgage tenors often run to 30 years, during which all but the core aspects can change – for instance, the borrower may want to change his bank account, monthly installment size, preferred date of payment etc. At present, the changes requested by a borrower are not updated immediately. Rather, he needs to send a request to the bank through the front-end, which transmits it to the back-office for action. If these activities could be automated and processed straight through, it would not only reduce the load on the back-office but also elevate the borrower's experience. The bank can expand the scope of self-service by employing Chatbots to effect any modifications requested by the customer and customized video statements to explain the various loan components and changes if any, and thereby reduce the number of calls to the contact center.

For early warning: Rather than waiting for borrowers to miss their payments, a lender can deploy Predictive Analytics and Artificial Intelligence solutions to identify cases where there is a likelihood of default. These tools quantify the problem by predicting the probability of default, and based on the perceived risk, the bank may decide the next course of action, such as rescheduling the loan in consultation with the customer. The same solutions can also assess pre-payment risk, that is, the risk of a borrower clearing the loan much ahead of time and thereby diminishing the bank's earnings. Once again, the bank can use this information to make future plans to compensate for the loss.

In QA/QC: Only a small portion of servicing transactions – typically 5 to 10 percent or as mandated by regulation – is tested for quality. Auditing even such a small sample takes a lot of time because a number of systems need to be accessed before a transaction can be validated. Using RPA to access the systems and consolidate their information on a single screen can lower processing time dramatically from about 20 minutes to between 2 and 3. This allows the bank to increase the sample size or employ fewer staff to do the same job.

In collection processes: When a loan stops performing or goes into default, it is classified into one of four stages based on the severity of the problem – collection, foreclosure, asset liquidation or bankruptcy declaration. At the collection stage, there are two kinds of processes, namely inbound and outbound. An inbound process is one where a borrower contacts the mortgage lender to explain the reason for falling back on repayments and to negotiate a solution. Only 5 percent of default situations fall in this category. In 95 percent of the cases, it is the lender that initiates contact to recover the payment. But it can only do this in accordance with regulation, which stipulates among other things, that the lender nominate a single point of contact, call only during the hours permitted by the customer, contact through the specified channel (email only, for instance) etc. Any violation of these rules is taken very seriously and attracts a stiff penalty.

The problem is that the collection/calling system and customer data – such as the Do Not Disturb registry – are not integrated, which means that the team has to manually go through various systems before making the call. This causes delays, and even errors. However, if the systems are integrated with technology, an automated alert can be sent to the collection team if they initiate a call that does not comply with the rules.

For managing default: Since the default management procedure is standardized, there is a real possibility of applying workflows using Business Process Management (BPM) tools to improve efficiency and Turn Around Time (TAT) in an activity that does not generate revenue. Using BPM tools, the servicer can organize various default management processes, automate timely follow up, and integrate information exchange/ documentation into the workflow so that a process that is stalled for want of information or documents can start automatically when the same is furnished. During foreclosure, the system can also be integrated with the external systems of attorneys, counties, courts and other agencies to allow most of the activities to be processed straight through.

Mortgage Servicing and Default Management are very important processes, but the former generates little revenue while the latter adds costs. What's more, these activities can cost a significant amount on account of the multiple systems and manual effort involved. With tools such as RPA, STP and BPM, lenders or their servicing agencies can dramatically improve the Turn Around Time, efficiency and compliance of these processes, while minimizing their costs.

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Anu Beri is an Industry Principal and leads the Mortgage Practice for the Financial Services Domain Consulting Group at Infosys. She started her career in Investment Banking and Financial Services industry, later moving to Information Technology for Financial Services. She has work experience of over 22 years. She has extensive global experience in IT solution design and in managing and delivering large IT projects. In her current role, she and her team work with leading Mortgage firms and banks to implement the latest technologies, drive business growth and profitability and increase customer satisfaction. She can be reached at Anu_Beri@infosys.com

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Vishu has over 19 years of industry experience (mostly into Process and Domain Consulting, and Analysis) and 7+ years of experience in Mortgages with extensive expertise in Business Process Improvement. He has handled consulting engagements which helped the clients to reduce operational risk, optimize cost, drive productivity improvements, process standardization, aligning with industry best practices and establishing better governance structures.

Over the years, he has provided domain related knowledge to various teams owing to his huge experience. He is personally involved in guiding the teams in adopting latest Mortgage technologies. He is also guest lecturer in premium institutes of country such as IIT Madras - Department of Management Studies, IFMR - Institute for Financial Management and Research, NIT-Trichy - Department of Management Studies etc. He can be reached at Viswanathan_C@infosys.com

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