WEB SEMINAR **SUMMARY**

Loan servicing: Identifying market needs for business process automation

Business process automation can complement and enhance an organization's existing loan systems.

Introduction

Loan servicers are under intense pressure to improve efficiency, minimize errors, and deliver a better experience for customers. In an intrinsically complicated business that involves a formidable amount of manual work and high costs – in part a legacy of stringent government regulations imposed after the financial crisis – new technology can offer a solution. Business process automation can complement and enhance an organization's existing loan systems, which can streamline workflow, raise productivity, and provide responsive and reliable service for borrowers.

The loan servicing industry's challenges with complicated and costly manual processes and ways to improve them were the subject of a recent webinar, **Loan servicing: Addressing market needs for business process automation,** sponsored by Canon U.S.A., Inc., and hosted by *American Banker* and *National Mortgage News*. Experts presented findings from a survey of hundreds of loan servicing professionals that identified industry pain points and objectives. They also discussed trends and how technology to systematize and automate workflow can help with the pain points and objectives.

The program was moderated by Penny Crosman, editor at large for *American Banker*. Presentations were delivered by Dana Jackson, executive director for research at SourceMedia; Craig Hughes, managing director of financial services consulting for CC Pace; Michele Rothkin, industry marketing specialist for financial services at Canon U.S.A., Inc.; and Jerry Mangone, national solutions analyst at Canon Solutions America.

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Loan Servicers on the Challenges Motivating the Drive for Automation

The research unit of SourceMedia – the publisher of *American Banker* and *National Mortgage News* – surveyed about 300 loan servicing executives and managers across the industry to better understand their workflow pain points and the priorities that are spurring them to improve their processes. The respondents represent firms that service mortgage, auto, student, commercial and consumer loan portfolios.

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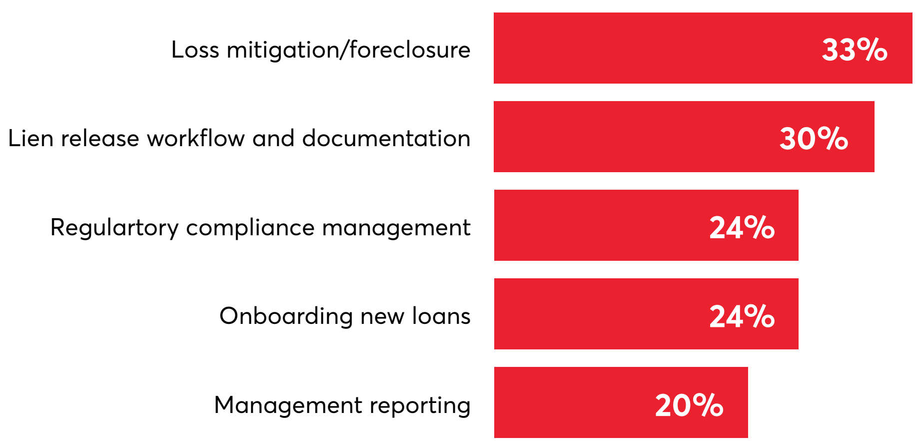
Yet a wide range of critical and complex activities continues to involve a burdensome amount of manual work. For example, 33% of respondents say that loss mitigation and foreclosure processes are all or mostly manual at their firms. A fifth or more of the respondents say that management reporting and onboarding new loans are all or mostly manual.

Highly manual loan servicing processing



Percent of respondents indicating processes are "All Manual" or "Mostly Manual"

Source: Loan Servicing Business Process Automation Survey, SourceMedia Research, Fall 2017

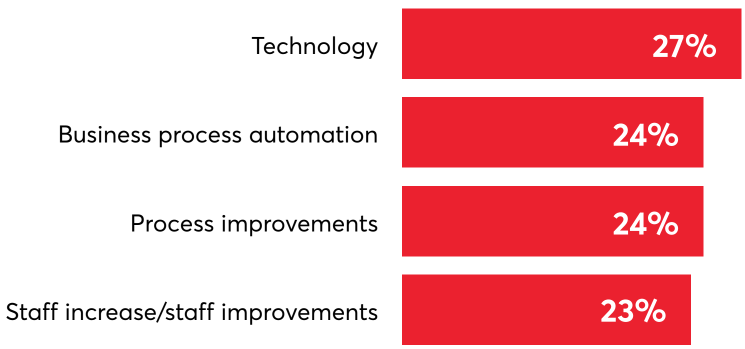
About 75% of respondents say technology and business process automation and improvements are the keys to becoming more competitive with other lenders and loan servicers.

Further, loan servicing professionals say that heavily manual processes have a large impact on performance in areas like payment processing, regulatory compliance, and data management and record keeping. “The current state has poor workflows and too many manual steps,” one respondent says. “We need to improve.”

With processes that are highly dependent on manual work, lapses and errors are unnecessarily frequent. More than 40% of respondents say that incidents at their firms involving delinquency collections, customer service and communications, payment processing, and customer billing occur more than 20 times each month in each area.

Facing such challenges and intense pressure to improve efficiency and deliver a better customer experience, most loan servicing professionals widely understand they need to do more to enhance their operations. About 75% of respondents say technology and business process automation and improvements are the keys to becoming more competitive with other lenders and loan servicers.

Relative priorities for becoming more competitive in loan servicing



Average point allocation (% must sum to 100)

Source: Loan Servicing Business Process Automation Survey, SourceMedia Research, Fall 2017

Indeed, improving performance in areas like billing and payments, data management and record keeping, and regulatory compliance strategies are among the top motivations respondents identify for automation.

Business process automation can be used to help address inherently difficult challenges in loan servicing, from onboarding loans to providing effective customer service.

Right-Sizing Compliance and Managing Complexity in Servicing

The need for ways to raise productivity and improve efficiency in loan servicing stems from both a demanding regulatory compliance environment and the fundamentally complicated and time-sensitive work that servicers perform involving borrowers' most confidential information and potentially affecting their lives.

The cost to service a performing mortgage nearly tripled after the financial crisis – and nearly quintupled for nonperforming mortgages – according to data from the Mortgage Bankers Association. Servicers layered on duplicative steps to help defend against regulatory penalties and created "shadow process overkill," Hughes said. Now, the objective is to streamline, automate and rationalize in order to help achieve a balance and "right-size the amount of effort that we're putting into compliance."

Simultaneously, business process automation can be used to help address inherently difficult challenges in loan servicing, from onboarding loans to providing effective customer service.

In onboarding, servicers have to contend with origination systems, correspondents, and sellers in bulk transfers who deliver information in different structures and formats, in addition to making sure they take control of a large volume of physical documents. Hughes said, "Under the best of circumstances, not all data tends to board automatically perfectly all the time."

In mortgages, "payment modernization seems to lag somewhat behind other consumer loans," Hughes said, with a high proportion of bills still being paid by check through the mail. Streamlining payment processes can improve customer satisfaction and reduce the burden on customer service resources by helping to minimize the possibility for errors in receiving and applying payments.

Payoff and lien release – an event that happens once in the lifetime of a loan – is a particularly tricky area involving different standards at the county level and the need to retrieve original mortgage documents from custodians. Handling overdue loans – and complying with stringent government regulatory requirements to help borrowers and strict investor limitations on how to provide relief to borrowers – can be even more complicated. Technology like advanced scanners and optical character recognition

A unified workflow system can help provide loan servicers with comprehensive visibility into their activities and performance.

can help immensely by replacing "stare-and-compare" manual work with computer-based procedures that can flag problems where they arise and expedite workflow where they don't, Hughes said.

More broadly, organizing workflow into a unified, automated system can help create consistency and improve efficiency across loan servicing organizations where "swivel chair processes" – employees alternating between distinct platforms and improvising workarounds to get their jobs done – are frequently the norm.

Further, a unified workflow system can help provide loan servicers with comprehensive visibility into their activities and performance, helping to allow supervisors to monitor trends and keep processes on track. "Smart loan servicing requires data analytics," Hughes said.

Helping to Boost Efficiency with Business Process Automation

By upgrading or complementing existing loan systems with business process automation – advanced hardware and software that helps track documents and information and optimize workflow – loan servicers can help drive efficiencies across the life cycle of a loan, from onboarding to records management, payment processing, loss mitigation, and lien release.

"With any manual process, it is helpful to have a systematic approach," said Mangone. The idea is to "customize easy ways to scan documents, store them, and retrieve them – and the data as well – and then also apply retention policies and version control to these documents. With the use of digital workflow automation, documents can be routed to the appropriate end user to help ensure that they stick with their assigned tasks in a time sensitive manner."

For example, bottlenecks frequently arise when an employee needs to retrieve and review a document, or verify data, to perform a particular task. Automating document capture and validation – and carefully storing and tracking documents and data from the beginning – "can alleviate some of the manual burden, which can allow more time for quality review and other actions that an employee needs to perform," said Rothkin.

Business process automation is designed to help loan servicers increase efficiency, reduce costs and errors, and deliver fast, simple and reliable service to borrowers.

Dashboards that track loan activities and document due dates, and alert employees to items that require immediate attention, play an important role in loan servicing. For instance, automated capture of documents and notices about property taxes or insurance could trigger an alert to the escrow department. Loan servicers can also use business process automation to set up portals for third parties to upload documents and information that is designed to be inserted seamlessly into the workflow.

The final benefit is the business intelligence and visibility into the loan servicing process that a unified system can create. Real-time data on process volumes, timelines, and employee performance can be analyzed and used to create benchmarks and help develop methods to further improve efficiency.

With data analytics, supervisors "can see what staff members, including the management teams, are performing consistently versus inconsistently," Rothkin said. "For example, you may have five people performing the same five tasks and find that some are stronger in two or three of the tasks versus others. So, by measuring these workflow areas you may decide to reallocate work to the employees' strengths."

"The idea is to gain control of the process and not let the process control us," Rothkin said. Business process automation is designed to help loan servicers increase efficiency, reduce costs and errors, and deliver fast, simple and reliable service to borrowers.

About the Research

Canon commissioned SourceMedia Research to conduct an online survey among loan servicing professionals at banks and credit unions of all sizes. The sample for these studies was drawn from *American Banker*'s opt-in subscriber base. The survey was conducted among 281 respondents in November 2017.

Webinar Panel
Moderator, Penny Crosman
Editor at Large, *American Banker*

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Vice President Research, SourceMedia

Presenter, Craig Hughes
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