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HOW AUTOMATION CAN HELP WITH KEY PAIN POINTS IN LOAN SERVICING

Hardware and software that systematize document and data workflows across the organization can help loan servicers manage complex processes and reduce inefficiencies.



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Building on existing systems with business process automation can help with many of the challenges that servicers face when onboarding loans.

INTRODUCTION

Loan onboarding, billing and payment processes, and loss mitigation can be among the most challenging activities in loan servicing, and can be areas of loan servicing that are in the most need of process improvements.

In onboarding, servicers frequently have to manage document and data flows from various origination systems, or incompatible servicing platforms during loan transfers. The process of billing and payments encompasses a range of complex tasks, including the administration of escrow accounts for property taxes and insurance. Loss mitigation activities tend to strain servicing systems that are largely built to handle performing loans.

Business process automation can offer effective tools to help with the challenges of such complex tasks. Using a coordinated network of hardware and software, servicers can incorporate documents and data across the organization into a unified workflow system. Documents and data delivered to servicers across modes – email, fax, internet portals, or hard copies that have to be scanned – can be captured, stored, shared and processed in a user-friendly environment that includes security and access control features.

Business process automation helps give servicers a clear picture of their holdings of documents and where those documents are in the processing cycle. Automated alerts and notifications can help servicers keep their processing tasks on track. Managers can use dashboards and data analytics to help monitor servicing activities, and employee and vendor performance.

Business process automation can include important security features. Document access can be restricted to authorized personnel and tracked by user, helping to create an audit trail. These capabilities, and the visibility into customer information that a servicer has in its possession, can be particularly valuable as consumer privacy concerns intensify. The European Union's newly enacted General Data Protection Regulation rules are prompting many financial institutions to rethink their consumer privacy practices. For example, the GDPR requires that companies keep a complete inventory of the information they have on EU consumers, and control and monitor who uses that information.¹

Rules and policies set by users to control printing and document access can also help reduce printing costs and resource waste, and help servicers meet sustainability objectives.

LOAN ONBOARDING

Onboarding new loans is among the most arduous processes in the servicing cycle. In a survey, 75% of industry professionals describe onboarding as a bottleneck, and 54% report that at least half of the work involved in onboarding is performed manually. At firms with minimal automation of processes, 81% of professionals say the manual work negatively impacts loan servicing performance.²

Loan files – particularly mortgages – can be voluminous, and it is often difficult to transfer the documents and data generated during loan origination onto servicing platforms.

For firms that buy flows of loans produced by correspondents, the transfer process is even more challenging. Correspondents frequently use a wide variety of origination systems, which can add complexity to the process and introduce the potential for inconsistencies when transmitting documents and information.

¹"Large U.S. banks scramble to meet EU data privacy rules," *American Banker*, April 16, 2018, <https://www.americanbanker.com/news/large-us-banks-scramble-to-meet-eu-data-privacy-rules>

²Data on industry professionals' assessments of the servicing process in this report reflects findings from SourceMedia/Canon's Nov. 2017 Loan Servicing Business Process Automation survey.

BPA helps establish a unified backbone for capturing, processing, tracking and archiving data and documents.

In bulk servicing transfers – which can encompass tens of billions of dollars in loans – the firms that are parties to the transfer often use different servicing platforms, which means that the same data can have a variety of names, or that documents can be structured and stored differently. As a result, the processes to help ensure that the acquirer has fully and firmly taken control of the loan files can be particularly grueling: Documents can be hard to locate, and may need to circulate so that data can be captured and verified on all relevant systems.

Clearly, the stakes can be high when onboarding loans. Missing or inaccurate documents and information can disrupt downstream servicing processes – including loan modifications that are in process at the time of a transfer – and can produce serious processing failures. For example, servicers must ensure that loan terms are fully captured so that principal and interest charges are reflective of agreed-upon schedules and triggers for the life of the loan.

Further, servicers must properly notify borrowers of the transfer and manage the transition of scheduled automatic payments – and try to make sure there are not redundant payments to two servicers. A bad customer experience during a loan transfer can damage a financial institution's chances of procuring refinance business or selling additional products and services to borrowers in its servicing portfolio.

Indeed, incompatibility in servicing platforms is viewed by many as a major obstacle in bulk transfers.³ Improving technology to help make the onboarding process easy and efficient has been a major focus of the industry.⁴

Building on existing systems with business process automation can help with many of the challenges that servicers face when onboarding loans. BPA helps establish a unified backbone for capturing, processing, tracking and archiving data and documents. Whatever the source – scanning equipment, hard copies, internet portals set up for counterparties – BPA is designed to insert documents and information into an orderly workflow that servicers can monitor digitally.

BPA helps servicers know where documents and data are in the process – and what's missing – and route them to the appropriate employees. Automated alerts and notifications can help keep time-sensitive tasks from falling through the cracks. Dashboards and business analytics can help servicers identify problems they need to address. For example, unusually long timelines for onboarding loans from a particular correspondent could help pinpoint protocols that need to be refined.

Further, when documents need to circulate, BPA's security features can offer important protections, such as restricting access to sensitive documents and data to authorized personnel. Also, BPA can be used to create logs of accessed documents, helping to produce an audit trail.

Centralizing and systematizing document workflows also helps reduce repeated printing of hard copies, thereby helping to reduce costs and create a lighter environmental footprint.

³ "Wells Fargo acquires \$51 billion in mortgage servicing rights," *American Banker*, Sept. 7, 2017
<https://www.americanbanker.com/news/wells-fargo-acquires-51-billion-in-mortgage-servicing-rights>

⁴ "Servicers Seek Greater Automation to Overhaul Onboarding," *National Mortgage News*, Feb. 25, 2016
<https://www.nationalmortgagenews.com/news/servicers-seek-greater-automation-to-overhaul-onboarding>

92% of loan servicing professionals say billing and payment practices are highly important when thinking about implementing automation processes.

| Onboarding challenges |
|---|
| Voluminous loan files |
| Correspondents use wide variety of origination systems |
| Incompatibilities in servicing platforms during bulk transfers |
| Need to circulate sensitive documents |
| Potential risks |
| Missing or inaccurate documents and information |
| Disrupted downstream servicing processes |
| Poor borrower experience |
| Exposure of sensitive documents and data to unauthorized individuals |
| Regulatory compliance problems |
| Potential benefits of Business Process Automation |
| Unified system for capturing, processing, tracking and archiving data and documents |
| Automated alerts and notifications |
| Dashboards and business analytics |
| Limit access to documents and data to authorized users |
| User access can be captured in audit trail |
| Restrict printing to authorized locations and access-controlled machines |
| Help reduce printing costs and environmental impact |

BILLING AND PAYMENT PRACTICES

Billing and payment practices are at the forefront of most servicers' considerations when they seek to improve processes. In fact, 92% of loan servicing professionals say billing and payment practices are highly important when thinking about implementing automation processes.⁵

In mortgages, billing and payments practices tend to remain more paper based than in other loan categories.⁶ Consumer survey research has suggested that the ease of making payments – including flexibility in the payment mode – can influence borrowers' decisions about where they go to get a loan.⁷

Further, errors in billing and payments can damage a servicer's reputation and draw scrutiny from regulators. Many supervisors have stepped up oversight of billing and payment practices in the wake of the foreclosure crisis. Payments have made up a big proportion of complaints about mortgages to the Consumer Financial Protection Bureau.⁸ One of the complaints cited by regulators was servicers demanding payments according to original loan notes, when modified terms applied.

Strict rules governing billing and payment processes have also posed challenges in tasks such as providing modified periodic statements required for consumers who have filed for bankruptcy.⁹

⁵ SourceMedia/Canon's Nov. 2017 Loan Servicing Business Process Automation survey

⁶ "Loan servicing: Addressing market needs for business process automation." Seminar hosted by *American Banker* and *National Mortgage News*, April 26, 2018 <https://www.americanbanker.com/web-seminars/loan-servicing-addressing-market-needs-for-business-process-automation>

⁷ "Servicers can win repeat business with better payment technology," *National Mortgage News*, Feb. 7, 2018 <https://www.nationalmortgagenews.com/news/servicers-can-win-repeat-business-with-better-payment-technology>

⁸ "CFPB Monthly Snapshot Spotlights Mortgage Complaints," Consumer Financial Protection Bureau, Feb. 8, 2017 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-monthly-snapshot-spotlights-mortgage-complaints/>

⁹ "CFPB finalizes technical correction to mortgage servicing rule," *American Banker*, March 8, 2018 <https://www.americanbanker.com/news/cfpb-finalizes-technical-correction-to-mortgage-servicing-rule>

Dealing with overdue loans tends to strain servicing systems primarily built for the routines of servicing performing loans.

One area in the billing and payment process that can be particularly complicated is the management of escrow accounts and the computation of the property tax and insurance escrows. Escrow errors have helped lead to enforcement actions against servicers and many servicers have outsourced their escrow calculations which requires effective flows of information with third parties.¹⁰

As with onboarding, business process automation's features and capabilities can help with the billing and payment process.

Systematic workflow processes can help provide an antidote for "swivel chair processes" – where employees alternate between distinct platforms and improvise workarounds to get their jobs done – that often arise when servicers need to draw on multiple sources of information and employ various verification procedures for billing and payment tasks.

For example, servicers can use BPA to set up portals to exchange escrow information with partner firms. Automated capture of documents and notices about property taxes or insurance could be used to trigger an alert to the escrow department, helping to make the process efficient and reduce the chances for oversights.

| Billing and payments challenges |
|--|
| Paper-based processes |
| Strict regulatory oversight |
| Complexities in escrow account computations |
| Potential risks |
| Poor borrower experience |
| Consumer complaints |
| Regulatory compliance problems |
| Potential benefits of Business Process Automation |
| Systematic workflow to manage multiple sources of information and verification tasks |
| Internet portals to exchange information with escrow service providers |
| Automated capture of documents and notices about property taxes or insurance |

LOSS MITIGATION

Loss mitigation processes were at the heart of many servicers' struggles in the aftermath of the financial crisis, and handling delinquent loans continues to be challenging and very expensive to servicers. The cost to service delinquent mortgages shot up after 2008, increasing 400% by 2013 and showing little sign of easing since then.¹¹ As a result, servicing professionals frequently cite loss mitigation as a pain point, and a priority for process improvements.¹²

Fundamentally, dealing with overdue loans tends to strain servicing systems primarily built for the routines of servicing performing loans.

After a string of agreements with regulators, legal settlements and new supervisory rules, servicers must meet an array of rigorous standards to help financially troubled customers. Servicers must promptly inform borrowers with overdue loan payments about loss mitigation options. For those borrowers seeking assistance, servicers must collect evidence of financial need by compiling a wide range of documents like paystubs and tax records, and advise borrowers if loss mitigation applications are

¹⁰ "Loan servicing: Addressing market needs for business process automation." Seminar hosted by *American Banker* and *National Mortgage News*, April 26, 2018

¹¹ *Ibid.*

¹² SourceMedia/Canon's Nov. 2017 Loan Servicing Business Process Automation survey

¹³ "OCC Crackdown Shows Continued Failures in Mortgage Servicing," *American Banker*, June 17, 2015 <https://www.americanbanker.com/news/occ-crackdown-shows-continued-failures-in-mortgage-servicing>

A system that can control document and data workflows is important to managing the complex and time-sensitive tasks involved in foreclosures, short sales and loan modifications.

incomplete – and what documents are missing if so. Servicers must provide a single point of contact for borrowers and follow strict timelines. Some servicers have also been faulted by regulators for failing to have compliance systems in place to track the progress of loan modifications.¹³

Moreover, servicers must conform to strict investor guidelines about the type and sequence of relief to provide to borrowers – from reducing interest rates to extending terms and forgiving principal. Such guidelines can vary from investor to investor, and there have been investors that have sued servicers for failing to act in their interest.¹⁴

When foreclosing a loan, servicers must give borrowers proper notice. They also must have properly reviewed and notarized documents establishing what a borrower owes readily accessible and available for legal proceedings. These documents often must be retrieved from custodians and the process for doing so can be haphazard, sometimes involving the delivery of boxes of files that servicers must search through to obtain the appropriate documents.¹⁵

Once again, business process automation can help enhance servicers' performance. A system that can control document and data workflows is important to managing the complex and time-sensitive tasks involved in foreclosures, short sales and loan modifications, which essentially involve repeating the loan origination process but with added complications – the loan is troubled, and is subject to demanding regulatory and investor standards.

Electronic dashboards help servicers monitor the completion of each step, and automation and task alerts can help servicers adhere to tight timelines. Critically, BPA's security features, such as the ability to restrict and audit access to documents, can help protect sensitive borrower information.

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| Loss mitigation challenges |
| Strict regulatory standards, including tight timelines |
| Strict investor guidelines about the type and sequence of relief to provide borrowers |
| Need to essentially re-underwrite loans in modifications |
| Accessibility of proper documents for legal proceedings |
| Potential risks |
| Exposure of sensitive documents and data to unauthorized individuals |
| Regulatory compliance problems |
| Investor disputes |
| Additional legal costs |
| Potential benefits of Business Process Automation |
| Centralized system to help control document and data workflows |
| Electronic dashboards to monitor loss mitigation activities |
| Automation and task alerts |
| Security features to help protect sensitive borrower information |

¹⁴ "Ocwen Rebutts Bondholder Allegations of Improper Servicing," *National Mortgage News*, March 23, 2015 <https://www.nationalmortgagenews.com/news/ocwen-rebutts-bondholder-allegations-of-improper-servicing>

¹⁵ "Loan servicing: Addressing market needs for business process automation." Seminar hosted by *American Banker* and *National Mortgage News*, April 26, 2018

Business process automation can help servicers streamline and rationalize their loan servicing processes while helping them adhere to new privacy standards and reach environmental sustainability objectives.

CONCLUSION

Loan servicing is a difficult business, often involving large and complicated document and data workflows. Loan onboarding, billing and payment practices, and loss mitigation can pose particular challenges.

Business process automation can help servicers streamline and rationalize their loan servicing processes to assist with those challenges, while also helping them adhere to new privacy standards and reach environmental sustainability objectives.

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[†] Based on weekly patent counts issued by United States Patent and Trademark Office.

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