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USING BUSINESS PROCESS AUTOMATION TO STREAMLINE LOAN SERVICING

Business process automation — advanced systems of hardware and software to help track documents and information precisely across the organization and optimize workflow processes — can build on existing loan servicing technology and help raise productivity, control costs and improve customer service.

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Servicers are struggling to manage complex, costly and manual activities, and investing in workflow automation to help alleviate these pressures.

EXECUTIVE SUMMARY

Loan servicing operations are under tremendous pressure to improve efficiency, minimize errors, and deliver better customer service – all in a business responsible for performing complicated and delicate tasks that usually involve burdensome manual work, such as managing delinquent loan accounts and servicing mortgage, auto, student, commercial, business banking and credit card transfers.

The pressure is intense indeed. For lenders seeking to generate repeat business and sell new products to existing borrowers, customer service is paramount. The imperative to control costs in an increasingly competitive market never lets up.

And the financial industry is still recovering from lapses in handling mortgage modifications and foreclosures – lost documents, lags in crediting payments, failures to coordinate loss mitigation efforts and provide representatives empowered to help troubled borrowers. Such breakdowns led to tens of billions of dollars in settlements with the federal government and state attorneys general[1], and a vast new supervisory apparatus that continues to evolve under the Consumer Financial Protection Bureau and other authorities. The stringent new government regulations, along with stricter oversight from mortgage investors, helped drive substantial increases in the cost of servicing loans.[2]

Business process automation offers a way forward in spite of these increasing costs. The idea is to complement existing servicing technology with a combination of sophisticated software, hardware and protocols that allows loan servicers to capture, archive, retrieve, edit, and process documents and information quickly, efficiently, and with fewer security risks. Middleware can link up documents and information siloed in different facilities and on different platforms.

In sum, a strong business process automation system can help loan servicers track documents and related activities with precision, helping to make information and documents accessible on demand, and helping to ensure that required tasks – such as timely and accurate notices and responses to borrowers – don't fall through the cracks.

To get a clearer picture of pain points and the performance areas that have been prioritized for improvement in the loan servicing business, the research unit of SourceMedia — the publisher of American Banker — in November 2017 conducted an online survey of hundreds of industry executives and managers sponsored by Canon U.S.A., Inc.

The responses show that loan servicers are struggling to manage complex, costly and manual activities, and investing in workflow automation to improve productivity and the quality of customer-facing practices, reduce errors, and rationalize additional layers of quality assurance added after the foreclosure crisis.

LOAN SERVICERS WRESTLE WITH MANUAL PROCESSES AND BOTTLENECKS

Loan servicing executives and managers say that their most complicated and delicate activities typically involve a burdensome amount of manual work (see Figure 1). For example, 24% of the 54% say that onboarding new loans – sometimes bulk acquisitions of servicing portfolios and often involving documents and information maintained on independent systems that pose compatibility problems – is all or mostly manual at their firms, while the other 30% say that it is about half manual. Similarly, 33% of the 63% say that loss mitigation and foreclosure activities are all or mostly manual, and the other 30% say those activities are half manual.

[1] "U.S. Bancorp, PNC, others fined as Fed ends foreclosure cases." American Banker, January 12 2018, 2:00pm EST. https://www.americanbanker.com/articles/us-bancorp-pnc-others-fined-in-foreclosure-cases?tag=00000154-7d7a-d79b-a976-fd7a29ec0000

[2] "MBA Chart of the Week: Servicing Costs Per Loan (Single-Family)--Performing v. Non-Performing." MBA Research & Economics. July 24, 2017. https://www.mba.org/mba-newslinks/2017/july/mba-newslink-monday-7-24-17/residential/mba-chart-of-the-week-servicing-costs-per-loan-(single-family)-performing-v-non-performing

Servicing executives and managers say that their most complicated and delicate activities involve a burdensome amount of manual work.

Figure 1. **Percentage of surveyed respondents who say half or more of work in each activity is manual**

Source: SourceMedia Research, November 2017

Loan servicing transfers, loss mitigation and foreclosure are all subject to especially rigorous compliance, regulatory and investor standards. For example, loan servicers must inform delinquent borrowers about loss mitigation options, and tell them if loss mitigation applications are incomplete – and what documents are missing if so – all according to strict regulatory timelines. Valid documents such as an original loan application or proof of income must be available for court proceedings, otherwise new proceedings may need to be commenced, which can cost loan servicers valuable time and money.

Therefore, in these activities it is particularly important to have systematic workflow processes built around advanced scanner, optical character recognition and barcode technology, and software that keeps track of it all — to help ensure that each loan servicer knows which task needs be to completed, the date it's due, and who's next in the chain to handle the task.

A majority of survey respondents also say that half or more of the work involved in management reporting at their firms is manual. Slotting documents into a unified system that keeps tabs on their status throughout the loan servicing cycle can help enable automated reporting, which helps to address this inefficiency.

Further, centralization and performance dashboards help managers monitor the progression of the workflow process, and to identify and address bottlenecks, which survey respondents say occur in most major areas in servicing, from data management to customer communications (see Figure 2).

Once automated workflow solutions are implemented for documents and information across the organization, efficient management reporting and record keeping become a natural outcome.

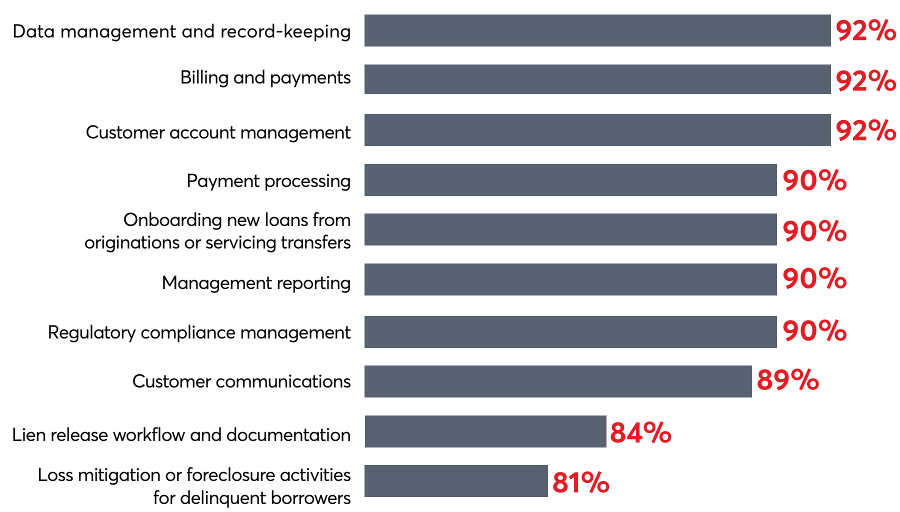
Figure 2. **Percentage of surveyed respondents who say each step is a bottleneck at their institution**

Source: SourceMedia Research, November 2017

LOAN SERVICERS' PRIORITIES FOR IMPROVING PROCESSES

It makes sense that loan servicers say that most major activities – from management reporting and record keeping to regulatory compliance to onboarding loans to loss mitigation to customer communications and account management – are highly important when thinking about automation (see Figure 3).

Figure 3. **Percentage of surveyed respondents who rated each activity "high" or "critical"**



Source: SourceMedia Research, November 2017

Smart business processes are vital in all of these loan servicing areas, and once automated workflow solutions are implemented for documents and information across the organization, efficient management reporting and record keeping become a natural outcome, and robust business controls to keep up with compliance standards become easier to put in place.

LOAN SERVICERS ARE TURNING TO BUSINESS PROCESS AUTOMATION

Business process automation solutions have the potential to enhance existing loan servicing platforms by improving and streamlining various activities in the process. These types of solutions can help improve the quality of captured data, create operational efficiencies, reduce costs, and expand uses for captured information for those businesses involved in loan servicing. These solutions can also help loan servicers become more competitive by improving the customer experience and providing better insights into processes with robust data analytics.

With so many loan servicers moving ahead with business process solutions, competitors cannot afford to sit idly by. "I have 30 years' experience and know that fast changes are underway in the next three to five years," says a survey respondent who is senior executive at a bank with a large loan servicing portfolio.

Yet loan servicers have a lot of work ahead of them in systematizing and rationalizing their processes. Only half of surveyed respondents say their firms are very effective at key tasks like management reporting and loss mitigation.

Loan servicers do recognize that business process automation and improved technology is the way forward: More than three-quarters of surveyed executives and managers say technology, automation and process improvements are the keys to becoming more competitive with other lenders and servicers, compared with 23% of surveyed respondents, who say staff increases are key to becoming more competitive.

"We need to drive down all costs and maintain a system that is easy to document our compliance with servicing regulation," says a respondent who is a senior vice president of capital markets at a nonbank servicer. "The current state has poor workflows and too many manual steps. We need to improve payment processing, communication, and documentation."

LOAN SERVICERS ARE INVESTING, RATCHETING UP THE COMPETITIVE STAKES

As loan servicers are well aware of the importance of improving their business processes, they are taking steps to make automation a reality.

More than 90% of surveyed respondents say they have implemented or plan to implement servicing workflow technology. About 78% of those respondents that are planning to implement workflow technology expect to upgrade or complement their existing loan servicing platform.

Asked specifically in the survey about using business process automation solutions to enhance existing loan servicing platforms by improving and streamlining various activities — which could help improve the quality of captured data, create operational efficiencies, reduce costs, and expand uses for captured information — 73% of respondents say they are interested.

CONCLUSION

Loan servicers say that their processes involve a burdensome amount of manual work, and that bottlenecks can appear at every major step of the process — from onboarding new loans to performing loss mitigation and foreclosure tasks. And the job has become only more complicated and expensive as government regulations have toughened and servicers have added new layers of quality assurance.

Survey responses show that the industry is looking to technology and process improvements to systematize their work, and match competitors that are trying to raise productivity and deliver better customer service to retain existing borrowers and sell them additional products.

Business process automation offers a way forward. An intelligent, coordinated system of hardware – including advanced scanner, optical character recognition and barcode technology – combined with software that tracks documents and information precisely and keeps it readily accessible can help make sure tasks are performed on time, raise efficiency, improve the speed and reliability of interactions with customers, and prepare loan servicers for the dramatic change that is sweeping the business.

METHODOLOGY

In November 2017, SourceMedia Research conducted an online survey among 281 manager-level and above respondents in banks, credit unions, non-bank servicers and sub servicers, drawn from the opt-in subscriber base of *American Banker*.

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