

# Mortgage Collaboration White Paper

Doing more with less:  
The advantages of paperless  
collaboration in today's  
mortgage industry.

## Contents

- 2 Just how much paper is used in the mortgage industry?
- 2 Paper is overloading the mortgage process.
- 3 A closer look at collaboration in a paper-based network.
- 3 Creating a paperless environment starts with simple reduction.
- 4 How to implement a paperless mortgage solution.
- 5 The ideal solution works *with* current practices.
- 6 The time to adapt is now.

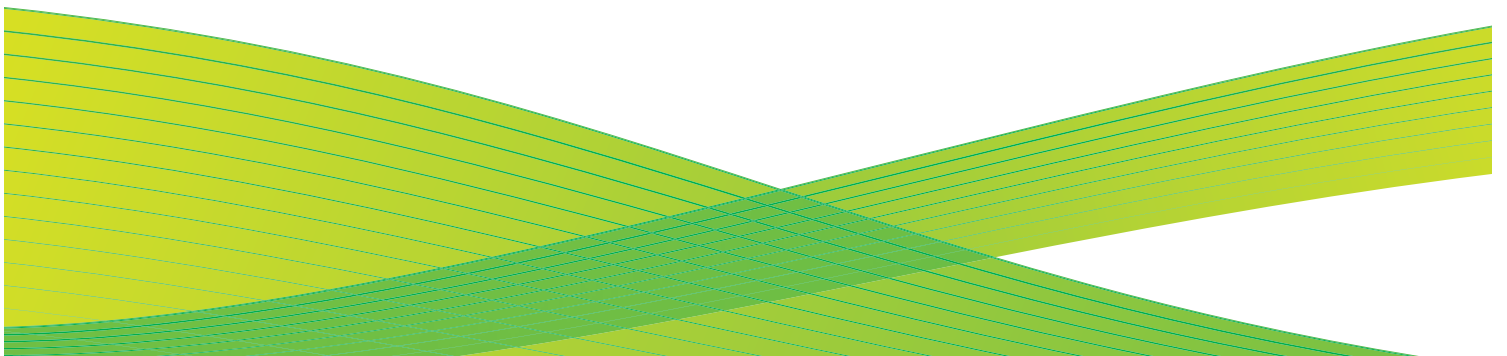
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## Just how much paper is used in the mortgage industry?

Today's mortgage process is both highly collaborative ... and highly paper-based. E-mail, fax, overnight express and more have all created a tremendous paper burden which has led to higher processing and paper costs, greater inefficiencies, poor service and longer turnaround times. This volume of paper has reached staggering proportions because, even though the industry has grown, paper has remained the main medium for communication among all of the various mortgage participants.

It's only natural that lenders are seeking ways to lower costs while increasing their efficiency and enhancing communication. The figures speak for themselves: according to the Mortgage Bankers Association, document management costs in 2006 averaged \$86 million for the typical top 10 mortgage lenders and \$27 million for the top 50 lenders. Overall, document management cost the mortgage industry \$3.7 billion for 15.7 million loans.<sup>1</sup>

To meet this challenge, many leading banks and mortgage lending institutions are adopting paperless mortgage technology. While there are many ways to implement this type of solution, the primary features include:

- Remove paper from the source of origination
- Enable the use of an on-demand electronic folder (e-folder) which can be created at origination and used by all parties involved
- Facilitate collaboration among multiple parties while conforming to current industry practices
- Rout the e-folder to outsourced underwriters or, post-closing, to investors on the secondary market
- Secure data for all phases of the mortgage process
- Support emerging industry standards
- Facilitate shorter implementation cycles

## Paper is overloading the mortgage process.

The mortgage industry is one of the most communication-dependent industries in modern commerce. Just some of the parties involved in the mortgage loan process include loan officers, brokers, processors, appraisers, inspectors, loan applicants, underwriters, title and mortgage insurance companies, lenders, service companies, investors, auditors and quality control companies. And all of these parties communicate via rudimentary channels, such as mail, fax and phone.

### The Six-Step Loan Process

Traditionally, multiple copies of paper documents have been the primary way for moving a loan through the six-step loan processing cycle. These steps include: (1) origination, (2) underwriting, (3) closing, (4) post-closing, (5) investor delivery and (6) servicing.



Typical Six-Step Loan Process

<sup>1</sup> Michael Murray, "Document Management—A Cost-Cutting Imperative," *MBA Tech News Link* 3.33 (14 August 2007).

## High Costs, Diminished Service Quality

The consequences of the industry's current paper overload include:

- Higher processing costs due to inefficiencies
- Poor service and long turnaround times
- High physical costs of producing, managing and shipping paper

According to mortgage executives surveyed in a recent study, the top two benefits of going paperless were a decrease in processing cost and time per loan and improvement in turnaround time and processing time per loan.<sup>2</sup>

Lacking a better alternative, the traditional mortgage industry continues to function as a disparate network dependent on paper. In many ways, the industry is functioning in a “pre-technology” state.

Since most, if not all, constituents involved require their own copies of documents in a loan folder, the volume of paper generated is staggering—typically over 6 billion new paper pages each year.

## A closer look at collaboration in a paper-based network.

Before attempting to go paperless, it's valuable to understand the various ways the mortgage industry's players currently collaborate using paper.

- **Simple, one-way paper transfer.** This type of transfer involves, for example, an originator faxing a document to satisfy an underwriting condition.
- **Two-way, workflow-based communications.** This is a more complex, paper-based collaboration. For example, the loan originator notifies the underwriter that a loan is ready for underwriting and physically transfers the loan package via fax, overnight express or mail. Upon receipt, the paper documents are put into a loan folder so the two parties can work together.
- **Access to information.** Process participants such as auditors, QC companies and investors require access to a large collection of documents in order to do their respective due diligence. Again, paper must be shared between all parties.
- **Connecting paper to another system.** Mortgage companies often automate subsets of the six-step loan cycle and then connect the paper to the electronic system. For instance, a lender may have a storage solution that stores paper-based documents electronically for long-term archiving, or a closing documents provider may connect to other systems to generate closing paperwork.
- **Transferring the loan folder.** When the ownership of a loan document changes, for example, an entire loan folder must be transferred from one participant to another in receiver-defined order and structure.

## Creating a paperless environment starts with simple reduction.

What does going paperless truly mean? Significantly, it does not mean a complete absence of paper from the process. Rather, it entails a dramatic reduction of paper—or elimination if possible—at the various points in the six-step loan process.

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Specifically, once paper has been converted to an electronic format or electronic documents have been generated by other systems, paperless technology must support a strong level of electronic collaboration among mortgage participants. This collaboration is essential to any paperless technology solution attempting to drive paper out of the process, for without collaboration, electronic documents will simply reemerge as paper at some other stage of the process.

<sup>2</sup> Advectis, Inc., 2006, *The Path to Paperless: 2006 Industry Barometer on Path to Paperless Processing*.

Today, mortgage companies are going paperless by eliminating paper from one or more steps in the process. For example, they can:

- Drive paper out of the origination process by electronically capturing paper-based or electronic documents at the point of origin
- Enable transparent underwriting processes with electronic document underwriting and workflow technologies
- Drive paper out of the investor delivery process by electronically shipping loan folders to investors, due diligence providers or document custodians

To successfully drive paper out of all phases of the mortgage loan process, however, a solution must meet two critical requirements:

- It must allow the industry to work as it does today, but with electronic rather than paper documents.
- It must enable the various forms of collaboration the industry utilizes today. For example, electronic:
  - a) Document capture and shipping
  - b) Document access/auditing
  - c) Notification and conditioning of loan folders
  - d) Connection or integration with other systems

### How to implement a paperless mortgage solution.

The mortgage industry has already demonstrated its willingness to adopt paperless technology quickly. As part of a recent study, mortgage executives were asked about the status of their organization's "path to paperless", 33 percent said their organizations had implemented electronic delivery of closed loan folders while 21 percent planned to implement same by June 2007; 28 percent had implemented paperless origination and underwriting for documents, while 34 percent planned to do so by June 2007.<sup>3</sup>

### Going paperless is not without its challenges.

A number of hurdles face mortgage companies trying to go paperless, two of which include:

- **Disparate systems.** Most lenders utilize a variety of internal systems and work with various companies that use disparate systems. This increases the workload associated with making some or all of the loan processes paperless. The more a technology enhances current systems, the more rapidly companies can adopt these technologies. Open integration points, via web-services layers and adherence to industry standards proposed by industry organizations such as MISMO (Mortgage Industry Standards Maintenance Organization), are critical to reducing the challenges of disparate systems.
- **Multiple players and the network effect.** The value of paperless mortgage technology increases exponentially with the number of players in the industry utilizing that technology. This is known as the network effect. The fax machine is a prime example of this: When one person had a fax, it had no value. When 200 people had a fax, it had limited value. But when millions had a fax, it had tremendous value. The same is true of paperless mortgage technologies.

Because the industry is an interdependent collection of players serving multiple roles, the pace at which paperless mortgage technology is adopted hinges on its value. At the same time, the value is dependent on how many adopt. As a result, implementers are challenged by the network effect and to achieve value by becoming an early adopter.

<sup>3</sup> Advectis, Inc., *The Path to Paperless*.

## There are many paths to a paperless state.

The following are three possible paths mortgage lenders might take to implement a paperless solution:

- **Revolutionary vs. evolutionary approach.** One approach to implementing paperless mortgage technology is the **revolutionary** or “**big-bang**” approach. This involves implementing a brand-new system and procedures to process mortgage loans as complete e-mortgages. It is a difficult approach for many organizations because it requires:
  - Significant investment in new systems
  - A complete transformation in the way the organization works

It may also not enable those constituents outside of an organization to interact with the implementing lender in a paperless fashion.

An evolutionary or hybrid approach immediately removes paper from the current processes by using a hybrid mix of paper-to-image documents along with electronically generated documents. A good example of this is MISMO SMART Docs™ (with SMART standing for securable, manageable, archivable, retrievable and transferable). This offers paperless benefits without requiring a wholesale change in the way an organization or its partner/collaborators work.

- **One-on-one versus network approach.** A **proprietary** or **in-house** solution is one that is developed and supported by the implementing lender. It requires that other industry players have a customized, one-on-one connection to the solution. If a mortgage lender opts to build its own solution, it is less certain that other industry players will be willing to use their solution. This is especially true if those same industry players are already familiar with and participating in a third-party network.

A **third-party collaborative** network is a solution that is already used by multiple industry players. Anyone can plug into this solution.

Another approach is to use a **combination of proprietary and third-party technology**. A mix of the two approaches might work best for different portions of the process, depending upon the level of collaboration and connectivity required in that particular process. For example, a wholesale lender may want to plug into a third-party network for broker loan submission because that network is the preferred approach of those brokers. For archiving those same closed loan folders, however, the lender may want to use an in-house, customized solution.

- **Rent it/outsourcing it vs. buy it/run it.** An **on-demand** solution is delivered as a service over the web. It may provide limited flexibility and control in terms of how the application works, but it can deliver maximum flexibility in terms of moving to a new solution when needed. It also requires less up-front investment than buying a solution and generates an immediate return on investment (ROI).

It is possible that buying and implementing a solution would cost less than an on-demand solution over many years, but it requires a large up-front investment. Additionally, it necessitates a long-term commitment to using that specific application and offers minimal flexibility to adapt to change.

The best solutions enable easy outsourcing and streamline the delivery of loans to the secondary market.

## The ideal solution works *with* current practices.

Industry research shows that mortgage executives have several preferences when considering paperless mortgage technologies. Based on these insights, an ideal solution:

- **Is evolutionary.** It enables mortgage participants to use their current systems, so that it is **easy to collaborate among multiple parties**. It integrates with existing systems, complements and enhances current practices and processes, and supports emerging industry standards.
- **Eliminates paper at the start of the mortgage process.** The originator of a loan would be able to create a **centralized on-demand electronic folder** that can be used by all parties involved. This electronic folder makes it easy to **leverage outsourced underwriters** as well as to **transmit the e-folder to an investor** on the secondary market after closing.

- **Offers a third-party sponsored collaborative network-based approach.** Already in use by multiple industry players, **anyone can plug into this solution**, making it easy for all parties to collaborate.
- **Is an on-demand solution.** Delivered as a Software as a Service over the web, it is not an in-house, proprietary system and does not demand a large up-front investment. It has a **short implementation cycle** and requires minimal training, so it can be up and running quickly, providing **immediate ROI** on the first loan processed. This also offers tremendous flexibility to adapt to change without risk of owning the wrong solution. In addition, it provides a high degree of redundancy and security.

### Some benefits of going paperless via this path

Taking the above preferences into account, working from a single central electronic mortgage file along with electronic document management yields a number of sought-after improvements:

- A secure and transparent process that's visible to authorized parties in real time
- Reduced charges associated with paper shipment
- Improved cycle time
- Reduced operation and storage costs
- Faster funding
- Fewer lost documents
- More standardized loan folders
- Ability to perform electronic audits

### The time to adapt is now.

The mortgage industry knows it must adapt to the changing landscape as driving down costs and increasing efficiency are essential to remaining competitive. As with any change, there are resistance and fear among the many players involved, but these challenges can be overcome. The solutions most likely to achieve rapid industry adoption—and to ultimately succeed—are those that reflect the requirements mortgage companies have identified as most important to them in paperless technology.

### About the Author Judson Phillips



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