Mortgage Services

INCREASING THE EFFICIENCY OF YOUR MORTGAGE DOCUMENT MANAGEMENT

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Mortgage lenders and servicers face declining originations and escalating regulatory requirements. This white paper looks at how you can increase the efficiency and profitability of your mortgage loan business. It offers insights into offloading the burden of organizing, managing, and protecting mortgage documents so you can process loans more efficiently, respond to buyers more quickly, and stay ahead of the auditor – making it easier to achieve your profit goals.

What Is Changing?

Three important trends are putting pressure on your mortgage business:

✓ **Lower origination volume and profits.** Annual U.S. residential mortgage origination is down 58% since its peak in 2003.[1] Fannie Mae Chief Economist Doug Duncan is predicting a "tepid $1 trillion year in originations."[2] Decreased volume and fewer fees reduce the profitability of your mortgage business.

✓ **Foreclosure/servicer documentation crisis.** Even though bank repossessions were 25% lower in 2011 than 2010, due in large part to "foreclosure processing delays" involving documentation,[3] the historic foreclosure volumes of 2008-2010 exposed weaknesses in the general securitization process and the loan document management procedures of many servicers. This tremendous backlog of foreclosures, contested buybacks, and mortgage insurance (MI) rescissions guarantees continued heightened interest in the credibility of the loan documentation processes. Foreclosure rates in 2012 are widely anticipated to increase.[4]

[1] "MBA Study Shows First Quarter 2011 Mortgage Banker Production Profits Slide as Volume Drops," RISMedia, June 24, 2011, http://rismedia.com/2011-06-23/mba-study-shows-first-quarter-2011-mortgage-banker-production-profits-slide-as-volume-drops/

[2] "Fannie Mae: $1 Trillion in Originations for 2012," Brad Finkelstein, Origination News, January 13, 2012, http://www.originationnews.com/dailybriefing/2010_516/1-trillion-originations-2012-1028334-1.html

[3] "Bank Foreclosures to Surge in 2012: RealtyTrac," Shanthi Bharatwaj, MainStreet.com, January 04, 2012, http://www.mainstreet.com/article/real-estate/foreclosure/bank-foreclosures-surge-2012-realtytrac

[4] "Bank Foreclosures to Surge in 2012: RealtyTrac," Shanthi Bharatwaj, MainStreet.com, January 04, 2012, http://www.mainstreet.com/article/real-estate/foreclosure/bank-foreclosures-surge-2012-realtytrac

INDUSTRY FACT:

The Dodd-Frank Act: Enacted in July 2010, this legislation aims to avert another significant financial crisis by creating new financial regulatory processes to enforce transparency and accountability.

Source: http://searchfinancialsecurity.techtarget.com/definition/Dodd-Frank-Act

✓ **Increased regulatory focus and pressure.** In response to the housing bubble collapse and broader economic "melt-down" in 2008, federal legislation created new regulatory bodies such as the Federal Housing Finance Agency (FHFA) and the Consumer Financial Protection Bureau (CFPB) within the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The practical implementation of these new regulations continues to evolve and impact the way mortgage lenders and servicers conduct and document transactions.

During the boom, it may have been possible to overlook some of the details around your loan document management, but given all the changes, that is no longer possible. You need to find a quick way to improve the management and security of your files, and in this environment of lower origination volumes and profits, you need to find the most efficient means of doing this. That's why document imaging ranks as the second highest technology initiative for community banks in 2011 and 2012.[5]

FIGURE 1. DECLINING MORTAGE ORIGINATIONS

Source: Mortgage Bankers Association, October 11, 2011.

[5] Independent Community Bankers of America. 2010 ICBA Bank Technology Survey. 2010.

Protected information can include much of the Information contained in loan folders: the borrower's Individual Tax Identification Number (ITIN), salary information, credit data, employment history, etc.

There are standing documentation requirements from loan-specific regulations, like the Real Estate Settlement Procedures Act (RESPA), Equal Credit Opportunity Act (ECOA), and the Uniform Residential Loan Application. In addition, federal and a number of state privacy regulations penalize companies for breach of private customer data.

Recent legislation that further impacts mortgage documentation includes:

- **The Dodd-Frank Act.**[6] Enacted in July 2010, this legislation aims to avert another significant financial crisis by creating new financial regulatory processes to enforce transparency and accountability.[7] This includes the Consumer Financial Protection Bureau (CFPB) which has enforcement authority over mortgage servicers. At the end of 2011, the CFPB started reviewing delinquent loans following the CFPB Supervision and Examination Manual.[8]
- **Federal Housing Finance Agency (FHFA).** Created by the Housing and Economic Recovery Act of 2008, this agency was established to strengthen the U.S. housing finance system through improved oversight of the activities of "government sponsored enterprises" (GSEs), Fannie Mae, Freddie Mac, and the 12 federal home loan banks.[9] The FHFA was a merger of the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB), and the U.S. Department of Housing and Urban Development (HUD) government-sponsored enterprise (GSE) mission team.[10] The FHFA has been overseeing the recovery, or "buybacks," of bad loans held by the GSEs; witness the $2.87 billion settlement between Fannie Mae, Freddie Mac, and the Bank of America.[11]
- **State Attorneys General lawsuits.** In 2010, Attorneys General from 49 states formed a group to determine whether or not mortgage servicers had improperly submitted affidavits or signed notices in support of foreclosures.[12] In addition, federal regulators and eight of the nation's largest mortgage servicing companies announced settlements over mortgage fraud allegations such as "robosigning." The settlement terms at both the state and federal level focused heavily on changes in servicers' internal procedures.[13]

[6] Fully known as the Dodd-Frank Wall Street Reform and Consumer Protection Act.
[7] http://searchfinancialsecurity.techtarget.com/definition/Dodd-Frank-Act
[8] "Dodd-Frank Still Top 2012 Servicing Challenge," Amilda Dymi, Mortage Servicing News, January 9, 2012, http://www.mortgageservicingnews.com/msn_features/dodd-frank-2012-servicing-challenge-1028246-1.html
[9] Federal Housing Finance Agency (FHFA) Definition | Investopedia
[10] As of June 2008, the GSEs purchased or guaranteed 84% of U.S. mortgages. Federal Housing Finance Agency, MarketsWiki. http://www.marketswiki.com/mwiki/Federal_Housing_Finance_Agency
[11] "U.S. agency chided in mortgage buyback deal," Jennifer Liberto, CNN Money, September 27, 2011, http://money.cnn.com/2011/09/27/news/economy/bank_of_america_mortgage/index.htm
[12] "49 States – Attorney General McCollum Announces Multistate Effort to Reign [sic] in Mortgage Servicers for Deceptive and Unfair Practices," posted by 4ClosureFraud, October 13, 2010, http://4closurefraud.org/2010/10/13/49-states-attorney-general-mccollum-announces-multistate-effort-to-reign-in-mortgage-servicers-for-deceptive-and-unfair-practices/
[13] Alon Cohn, "Federal Mortgage Servicing Settlement Scoops States," Center for American Progress, April 14, 2011, http://www.americanprogress.org/issues/2011/04/mortgage_servicing.html

Disorganized files can lead to audit fines and costly buybacks, when complete documentation is not readily available. Rapid response to audit requests and documented chain of custody demonstrate strong internal policy adherence.

What Do These Changes Mean for Your Business?

With the declining volumes in origination, improving operational efficiencies in managing loan files can help to reduce operating expenses, improving mortgage profitability. The cost and risk inherent in paper-based mortgage loan processes can be significantly reduced through document management solutions that combine imaging, automation, and experimental best practices.

OPERATIONAL EFFICIENCY

You may be using loan origination software (LOS) to generate standard forms or pre-populate key disclosures, but many banks still print and maintain a full paper file — sometimes with multiple copies of the same documents. Others are beginning to operate in a hybrid environment where some portions of the process are "paperless" — but not all. If your document environments (paper or digital or a hybrid of both) lack clear and consistent file management, your employees are spending time searching for files and related documents that they could be spending on their mission-critical responsibilities. It may take hours before you can find the necessary files to respond to an inquiry. Worse yet, you risk the loss of important documents.

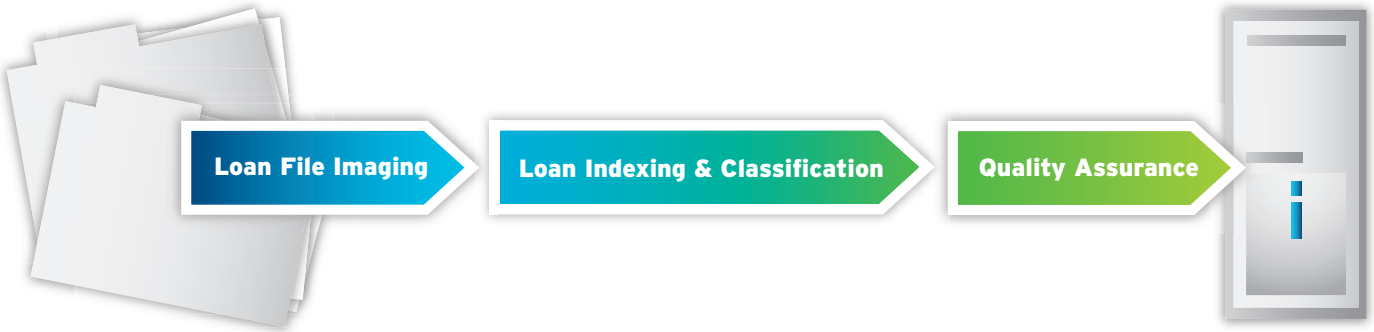
RISKS AND FINES

Changing regulations and increasing scrutiny make it harder for you to be compliant. If you don't respond quickly to an audit request with clean, well organized files, examiners are likely to apply even more scrutiny. You need to demonstrate that you did everything "right" when originating or servicing those loans. Disorganized files can lead to audit fines and costly buybacks, when complete documentation is not readily available. Rapid response to audit requests and documented chain-of-custody demonstrate strong internal policy adherence.

CHANGING CAPITAL REQUIREMENTS

Capital requirements are increasing and stock prices are depressed. Could you face the possibility of selling off some underperforming loans in order to improve your risk posture and bottom line? It's no longer practical to set aside a conference room and invite one or two investors in to review your loans. Nor can you afford to spend time piecing together documents and shipping them around the country to solicit multiple bids. You need a secure way to create digital files and make them available, simultaneously, to multiple buyers — regardless of where they are located.

FIGURE 2. BASIC COMPONENTS OF LOAN FILE CONVERSION



A document management solution for streamlining loan management provides the consistent, organized, virtual loan files that you require to address these impacts upon your business.

Operating without a consistent process for document naming, classification, and regular quality control can result in shifting your loan document management from a disorganized paper system to a disorganized digital system. This is true whether you are imaging inactive documents for storage or for active loans. The same schema used for imaged documents must also be used for documents already in electronic form.

Quality assurance is key — before the electronic file is released, you verify that the image is readable and the file is optimized for use (whether it's collating all the various pieces associated with a loan, retrieving a specific document, or responding confidently and completely to an auditor's request).

Why Not "Do It Yourself"?

You can reduce your cost of internal resources, facilities, and capital investment with a smart outsourcing strategy. You can save the upfront costs associated with putting together an onsite mortgage document management infrastructure: secure physical space, electronic fax servers, scanners, software needed to manage digital files, and personnel.

There are cloud-based solutions that lower the cost of storage, but the biggest cost in this system is that *someone has to do the actual scanning*. Instead of hiring dedicated personnel for these tasks, many banks are asking their loan officers or administrative assistants to add scanning to their workloads.

When your professional staff is scanning they are not originating or servicing loans or performing other core job responsibilities. The quality on multi-function devices or other office scanners may not be sufficient (aggravated by unfamiliar operators), and the indexing and classification done by resources not trained or focused on such tasks is prone to error. Scanning is not the core expertise of most lenders or servicers.

That's why many of these companies are leveraging the resources and expertise of experienced service providers to gain the benefits of document management solutions.

THE CHALLENGE GOES BEYOND IMAGING

There are lots of companies who will handle the imaging part of the digital loan file creation process. But what about other components key to effectively managing loan documents, before and after the imaging, as shown in the figure below?

A more realistic list of the requirements to manage loan documents includes:

- Coordination between the various sources of information, whether distributed bank branches, central office storage cabinets, or offsite storage
- Chain of custody throughout the entire process
- Operation in a hybrid paper and electronic environment to accommodate documents already in electronic format associated with the loan – using the same schema of indexing and classification
- Flexibility to store electronic loan documents onsite (in an Electronic Content Management (ECM) system) or at a hosted digital repository
- Provisions for requisite document retention in storage – and secure destruction of the paper files at the appropriate time in the document lifecycle

FIGURE 3. MORTGAGE DOCUMENT MANAGEMENT SOLUTION

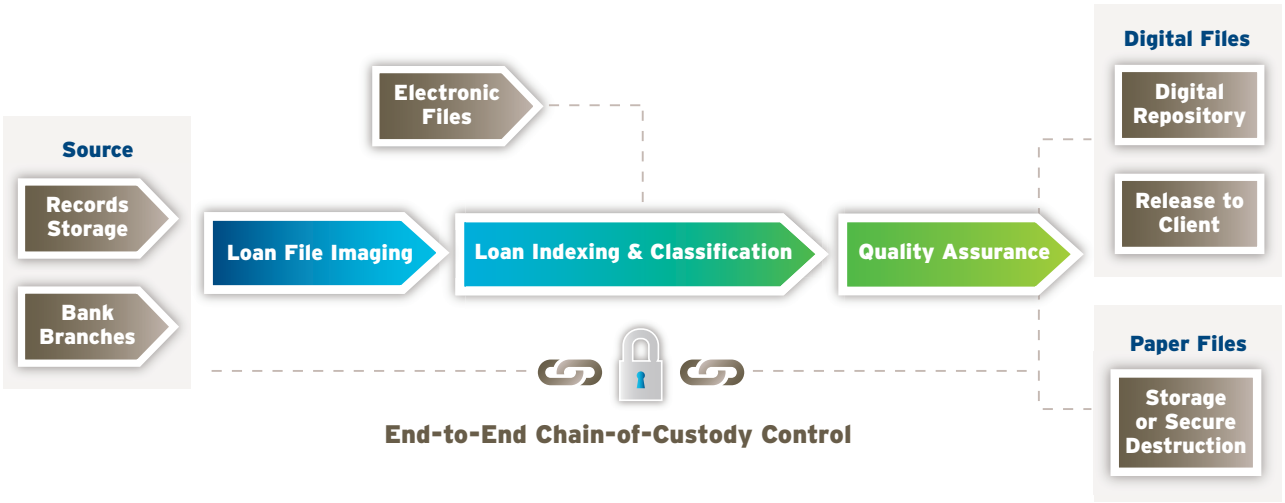


TABLE 1. SELECTION CHECKLIST

CHECKLIST FOR CHOOSING AN OUTSOURCING PARTNER FOR MORTGAGE DOCUMENT MANAGEMENT SOLUTIONS

- ☑ Handles management of both physical and digital (hybrid) documents
- ☑ Manages the complete lifecycle of hybrid loan documents from capture and classification through storage and secure destruction
- ☑ Has demonstrable chain-of-custody control
- ☑ Offers flexible options to meet your needs and budget — i.e., image all documents, subsets, or only those related to inquiries (on-demand)
- ☑ Uses and offers training in best practices for document management
- ☑ Supports your requirements for distributed handling, centralized consolidation, or a combination of both
- ☑ Provides a service footprint that can support all of your locations
- ☑ Can integrate electronic mortgage files with your own ERP or ECM — or store them offsite in a hosted repository, with secure web-based access

Choosing the Best Partner for Mortgage Document Management Solutions

Offloading your mortgage management processes frees you to focus more tightly on your profit goals, improves your ability to reply quickly to customers, and ensures that you can respond to auditors swiftly and comprehensively. But how do you choose the right service provider? The table on the left summarizes some the most important criteria in considering a partner to help you achieve your profitability goals for mortgage loan document management.

For More Information

Learn how Iron Mountain can help you create a more profitable loan business by managing your loan files with greater speed and efficiency. Start putting solutions to work that allow you to reduce your operating expenses, free your employees to concentrate on mission-critical responsibilities, respond quickly and accurately to audit requests, and operate fluidly in a hybrid paper and electronic environment.

Call us at 1-800-899-IRON (4766).

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