SERVICING MANAGEMENT

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Spotlight Shifts To Post-Refi Issues

Lenders will require the right technology in order to capitalize on the opportunities that servicing the refinance boom loans will present.

BY DAWN GIBBS

As could be expected with the recent refinance boom, technology spending among lenders has really been focused almost exclusively on their loan-origination systems and peripheral supporting systems.

With the refi boom winding down to its inevitable conclusion, however, it is also reasonable to expect that lenders will now need to invest technology dollars in systems that will enable them to successfully service the bulk of loans that has come through the origination pipeline as of late.

As the focus turns to servicing, lenders need to be certain that they are investing in the right technology - systems that will effectively position them to capitalize on the opportunities that servicing the refi boom loans will present.

During the current refi boom, many lenders have found inadequacies in their servicing technology and procedures that need to be addressed to position themselves to better handle any future refi booms. For example, some lenders may have found that they need a more streamlined system for payoffs. In order to successfully pay off a loan, lenders must release the lien and report the information to the IRS.

In the crush of a refi boom, a backlog may have occurred for lenders that did not have adequate systems in place to process the increased number of payoffs.

The same principle applies for setting up new loans as well as payoffs. During a refi boom, it is crucial that lenders have the capability to smoothly transfer data from origination to servicing to ensure a successful loan set-up.

Vendors that have loan-origination systems and servicing systems from the same vendor should already have this capability in place, which does not have to be managed secondarily by the lenders' IT department.

For lenders that operate loan-origination systems and servicing systems with different vendors, the risk exists for dialogue problems between the two systems. This can result in inaccuracies in loan data, which is, of course, magnified in a refi boom environment and requires lenders to go back to the hard files for any loans that have problems - a costly process both in terms of time and money.

"The Achilles' heel in this equation has always been the lack of communication between loan origination and servicing systems, which is accentuated during a busy period such as a refi boom," says Leilani Allen, principal at Mundelein, Ill.-based Summer Point Consulting.

"Most lenders suffer from this and, as a result, are forced to deal with the problems generated by missing data between the two systems. For example, as loans move into servicing, accounting items such as odd-day interest calculations and post-closing trailing documentation requirements are often mishandled.

"More dialogue is required between the loan-origination system vendors and the servicing system vendors in order to improve the level of integration and effectively decrease the number of errors," she states.

Levels of flexibility

Lender size is a primary consideration when evaluating servicing technology. All lenders, regardless of size, have likely seen an increase in loan originations recently, which will affect all of them on the servicing side as well.

For small-to-medium-size lenders that have chosen to service their loans rather

Dawn Gibbs is president and chief executive of Financial Industry Computer Systems Inc. (FICS), a Dallas-based provider of mortgage loan origination, residential mortgage servicing and commercial mortgage servicing technology. She can be reached at (972) 458-8583 or dawngibbs@loanware.com.

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than sell them, flexibility is the key consideration when it comes to servicing technology.

These lenders often specialize in processing many types of loans for a particular geographical area. Too often during a refi boom, lenders push loans through the front end without first verifying that their servicing systems can even handle certain types of loans.

For these lenders, it is vitally important that their servicing systems be able to effectively handle loans of different types, including fixed rate mortgages, adjustable rate mortgages and specially financed loans.

For example, if a loan did not have the proper adjustable rate mortgage field to track intermittent changes and lifetime cap, then those caps could be missed, which would prevent the correct interest rate from kicking in at the correct time. These lenders need to have a system that can be within their control, enabling them to access data easily in order to manage their loans and databases.

The situation is a bit different for larger lenders and mega servicers. While the small-to-medium-size lenders require increased flexibility in handling creatively financed loans, larger lenders often focus more on a servicing system's ability to handle high volumes of similar types of mortgage loans originating from larger geographical areas, including multiple states or points nationwide.

Bigger lenders require systems that enable more automated workflows and task scheduling. Without a system that can handle this large volume of loan data virtually mistake free, these lenders can suffer huge expenses in subsequent penalties and time required for rekeying of data.

"Servicing system functionality has to align with servicers' business objectives," says Jeff Lebowitz, principal at Mortech LLC. "According to our latest study, 'Mortech 2001,' servicers are bent on enhancing customer service and increasing income per loan serviced - cross-selling.

"These translate into demand for servicing system features that incorporate intelligent workflow, real-time processing and competent customer analysis routines. The ability to scale systems and to reduce costs are important, but now take a back seat to customer-centric computing," he declares.

Another point for consideration is that there are certain factors in terms of existing infrastructure that can aid or hinder a lender's implementation of an effective servicing system. In general, a smoother implementation can be expected if the lender is able to select a servicing system that utilizes the same platform that is already in place, for example, PC-based, Windows systems versus Unix systems or Microsoft versus Oracle databases.

Not only will this enable the servicing system to communicate more effectively with the lender's existing system due to platform commonality, but it also will make training easier, as staff should already be familiar with existing user interface formats. Additionally, with the same platform, MIS and IT personnel will be more familiar with and therefore better suited to support the new servicing system.

Bottom-line issue

For all lenders, the final selection of a servicing system will ultimately come down to cost effectiveness. As with flexibility, a distinction should be made based on lender size. What is cost effective for small and medium lenders may not reflect what is cost effective for larger lenders.

The smaller players cannot usually afford (nor do they require) the same level of technology as the larger ones. There are servicing system options available for both application service provider (ASP) and in-house configurations, as well as service bureaus.

ASPs are sometimes less expensive than in-house systems to support, while in-house systems generally provide a higher level of control. The selection process for these lenders, therefore, should be guided by a careful consideration of both pricing and necessary functionality requirements.

Smaller lenders often prefer in-house systems or ASPs to service bureaus for flexibility and control. However, for larger lenders, the process is quite the opposite. Most large lenders utilize service bureaus to manage their data, providing them a servicing solution that is much more transaction-driven and seamless.

The key, as with any technology purchase, is for the lender to have an IT staff and a technology vendor that work together to reach the optimal balance between the revenue generated and the expenses incurred to implement the solution.

Looking ahead

As lenders consider servicing technology purchases to help them cope with their present situations, they should be mindful of what their future requirements will be. These systems reflect a substantial investment, and lenders should expect to enjoy benefits from their servicing systems well into the future.

Systems should be in place that will not only handle the influx of loans following the most recent refi boom, but that will be able to handle the influx of loans for all future refi booms, whenever they may occur.

In addition, these changes should be able to be made easily, preferably without the requirement of programming knowledge. During a refi boom, lenders are busy enough with originations and moving loans into the servicing system without having to go to their service providers and have something programmed specifically for them.

Functionality such as import features and document package capabilities come into play in this light. As lenders begin to work with additional loan origination system providers or other servicers, their servicing system needs to be able to adapt to these new relationships and enable the successful import of mortgage loan data from and to these other systems.

Just as importantly, different states require different documents, such as collection letters, and a servicing system purchased today should have the ability to add new states as a lender expands into other geographical areas. This same philosophy should apply to all key features and functionality when selecting servicing technology.

Today's environment is forcing lenders to contemplate their servicing technology and think about their future servicing needs.

With careful attention to system flexibility and level of functionality, existing infrastructure and pricing options, lenders should be able to successfully select and implement a servicing system that will provide them with a competitive advantage in the current market while positioning them to effectively capitalize on refi boom-related servicing opportunities to come. SM