The Case for Underwriting Technology

Automating file collection and loan evaluation can reduce processing time and production costs

By Greg Marek

The TRID consumer-disclosure rules have been in effect for more than a year and no longer dominate industry headlines. Still, the effect that TRID has had on loan-production costs and time to close continues. Most mortgage companies added staff to ensure compliance with TRID, which contributed to a dramatic increase in personnel-related loan-production costs and an increase in the time to close a loan.

Although companies have had ample time to refine their approaches to complying with TRID, total loan-production costs continue to hover stubbornly near $7,000, with personnel-related expenses remaining above $4,500 per loan. In addition, loan-production times, after having leveled off, now appear to be ticking back up.

According to the December 2016 Origination Insight Report from Ellie Mae, it took 50 days on average to close a loan this past December, which equaled the peak reported in January 2016. This number has climbed steadily from 44 days this past March, to 46 days this past August, to 48 days this past September and October, and then to 49 days in November of last year. Most lenders don't expect these trends to change in the near future.

Need for technology

In a survey conducted in October 2016 at the Mortgage Bankers Association's annual convention, 70 percent of lenders reported they expected total loan-production costs to continue to rise in 2017. In the same survey, 86 percent of respondents revealed they plan to increase spending on automation technology to reduce personnel-related loan-production expenses and to speed production times.

The real question is: Where will they focus this spending? In the same survey, lenders were asked if automating the consumer experience during the application process (the front end) or automating key steps in the loan-production process (the back end) would be most important to their companies.

Even with all the attention paid to the consumer-application experience beginning with the launch of Quicken's Rocket Mortgage, 45 percent of respondents ranked "automating key steps in the loan-production process" as most important. Another 37 percent stated that "automating both the consumer experience and their loan-production processes were equally important." Only 15 percent ranked "automating the consumer experience" as the most important step.

Clearly, the industry realizes that in order to accelerate loan origination while delivering exceptional customer experience, key steps in the loan-manufacturing process must be automated, and not just the application process.

Focus on underwriting

When evaluating where to automate in the loan-manufacturing process, underwriting is a crucial step that deserves focused attention. Underwriting is a critical function in the process but, too often, underwriters face multiple obstacles to their productivity. Much of their time is consumed with simple, routine tasks such as looking for missing documents, manually comparing different versions of documents and performing basic calculations.

If these repetitive, routine tasks are automated, underwriters could focus on the high-value activities that require their expertise, such as carefully evaluating loans that need more thorough reviews. This type of automation will dramatically accelerate underwriting times.

Automation technology can deliver benefits even before a loan file reaches an underwriter as well. It's all too common for underwriters to receive loan files that are missing important documents, contain incorrectly named documents, or have documents arranged in an order that makes it difficult

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for the underwriter to work efficiently. The underwriter then must devote valuable time to renaming, reordering, and hunting down missing documents — time better spent on the critical task of evaluating creditworthiness.

Automated document-recognition technology can dramatically accelerate the onboarding of loans, and save underwriters valuable time by automatically identifying, naming, and indexing common loan documents to create an electronic loan folder. This drastically reduces the time and labor required for setting up a loan file. The technology also can provide notification of missing documents, so originators can rectify the problem.

Automating the onboarding process can dramatically reduce the time it takes to assemble a complete loan file. Rather than chasing down missing documents or manually reordering documents to facilitate the underwriting workflow, underwriters can immediately begin evaluating the borrower loan file, which will speed up the loan-production process.

Automation is key

Automation also can accelerate the critical task of evaluating loan files to determine if the loans meet underwriting standards, which helps ensure loan quality. Today, underwriters rely on checklists to evaluate loans. The process is slow and error-prone, and critical calculations often are done manually, where errors can be costly. Automation technology can complete these checklists in a consistent manner, and flag only those items that don't "pass" and thus require a manual review.

Using automated data extraction (ADE) technology, underwriters can complete checklists in seconds, cutting the time it takes to evaluate loan files by up to 80 percent. ADE technology automatically extracts critical data from loan documents, compares values across documents in a fraction of a second, runs the data through a pre-defined rules engine, performs calculations, and provides alerts on any values that fall outside of established parameters or tolerances.

This exception-based model eliminates the costly and time-consuming "stare and compare" approach to verifying data across several documents, and reduces the multiple touches used today to ensure data integrity. This allows underwriters to focus on loans that require more careful scrutiny, such as loans with non-occupant co-borrowers, loans on investment properties, loans with borrower self-reported income, and other loans with unique characteristics.

Automation also ensures that calculations are done quickly and correctly. Without automation technology, underwriters must manually enter data into spreadsheets, calculators, or loan-origination systems to calculate the numerous financial ratios used in the loan-evaluation process.

Any mistakes made while rekeying data could result in faulty underwriting decisions that might negatively affect a lender's ability to sell loans or even lead to loan buy-backs. Underwriters can save time and eliminate errors by using technology that performs required calculations in a standardized, repeatable way — something auditors require.

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Every step in the loan-manufacturing process can benefit from technology, but underwriting deserves special attention because automating this critical step delivers benefits beyond productivity and cost savings. Underwriters who are more productive will underwrite higher-quality loans and do it more quickly.

Automation also frees underwriters to focus on higher-level tasks that leverage their skills and experience, rather than spending most of their time on tedious, repetitive tasks. This leads to increases in job satisfaction as well as productivity, so underwriters are less likely to leave for other opportunities, taking their experience and institutional knowledge with them.

As the mortgage industry struggles with loan-production costs that remain stubbornly high, and near all-time-high times to close, smart originators who adopt automation technology to accelerate the entire loan-manufacturing process will gain a competitive advantage. With automation, lenders can accelerate the entire process, reduce labor-related costs, produce higher-quality loans, and improve employee satisfaction for some of their most valuable employees. ■