Making the Most of a Digital World

Here are some tips for how lenders can make the most of a digital business environment, improve customer service and cut costs.

BY STANLEY M. PACHURA

When Alpharetta, Georgia–based NetBank Inc., the Internet-only savings-and-loan, filed for bankruptcy in September, it reminded me that the business of lending is still very personal. We're often inundated with news about the ever-increasing number of consumers who are banking online but, in spite of all this, I still maintain that people looking to buy a home want to look their lenders in the eye and shake their hand. ■ The appropriate use of technology should enhance the vital personal connections between lenders and their customers. Information technology (IT) is enhancing personal relationships every day. The Internet's ability to provide instant access to data on demand has created a world where people date, network and maintain family connections online. The lenders that are able to balance customers' "old-world" need for personal contact with their 21st-century need for information on demand will be in the best position to survive the current market downturn.

Going paperless

In 2007, virtually every mortgage originator—brokers and lenders—works with an electronic loan origination system (LOS) to manage their loan origination process; verify a borrower's credit, savings and employment status; generate loan documents; and electronically request appraisals, title insurance and so forth. Where lenders differ greatly is in the way they leverage technology at different phases of the origination process.

Many lenders receive loan data electronically from consumers completing 1003 loan applications online or brokers uploading data files through a Web site. Lenders typically then generate a paper file immediately, and the loan documents are routed in paper format to the constituent parties—underwriters, mortgage insurance (MI) companies, credit agencies and others—via courier services or by fax.

These electronic documents often come back to the lender in portable document format (PDF) and are once again converted to paper. The process is often slow, inefficient and fraught with potential errors and security risks—all of which could be avoided by going paperless.

"Going paperless" is the popular vernacular in the technology industry for the process of using the Internet and private networks to send, receive and share data, including images of paper documents, and storing it digitally. A paperless system essentially eliminates paper records by hosting all necessary loan documents in a secure electronic file.

There is a tendency to want to pull back from investing financial resources in anything—including technology—during difficult financial times.

Under optimal conditions, that file can be accessed by every participant in the lending process. Workflow-driven paperless systems also generate and manage immediate electronic requests for appraisals, credit scores and other services. Essentially, paperless systems automate and streamline the loan origination process, eliminating manual steps that cost paper-based lenders countless hours.

In my experience at the PMI Mortgage Insurance Co., Walnut Creek, California, we have worked with lenders with just about every degree of technical acumen and at various stages of adopting a paperless model. All of the customers we work with acknowledge the benefits of going paperless. A full conversion is a multi-phase endeavor. Our customers often have expressed to me the value they derive from every phase of the transformation. In virtually every instance, they bemoan the fact they didn't make the change sooner once their conversion is complete.

There is a tendency to want to pull back from investing financial resources in anything—including technology—during difficult financial times. But companies able to take a pragmatic approach to the deployment and use of proven technologies will increase their efficiencies during a down cycle and be in a better position to generate revenue and increase profitability when the market picks up.

Lenders interested in "getting connected" and adopting a paperless system can think about integrating the technology into their workflow in three phases.

Phase 1: Getting started

Lenders looking to "dip their toes in the water" of a paperless model and realize the benefits of online lending can begin by focusing their efforts in four areas.

Area No. 1: People—Refocus your training, employee-development and change-management programs on the skill sets you will need to prosper in a paperless environment. Employees who can help you make the transition must develop computer skills, understand technology and be able to function in a changing environment.

When you are hiring employees or developing the skills of existing employees, it's important to think about the big picture. Consider hiring employees who can help you before, during and after your transition to a paperless system. When you're ready to optimize the way you're using technology, these employees can grow with you and bring vital new skill sets to your business.

Later in this article, when we get into phase 3, I will address some ways to optimize your use of technology. Reading through that section can help you anticipate some future personnel needs so that you can hire employees who will be able to help you grow with the technology.

Area No. 2: Data transmission—Begin changing the way you transmit and share data. Stop sending packages overnight and begin converting everything you have to document images. This may sound daunting, but there are several hosted solutions available that can minimize the upfront investment.

The best solutions on the market enable any loan originator to collaborate with loan documents electronically and make it easy for lenders, brokers and investors to manage the process of underwriting, auditing, collaborating, delivering and archiving loan documents electronically.

A few of the leading solutions on the market that PMI works with regularly include Alpharetta, Georgia–based Xerox Mortgage Services' BlitzDocs® Collaboration Suite (now part of Xerox Global Services, Rochester, New York), and Dublin, California–based Ellie Mae Inc.'s Encompass® Electronic Document Management (EDM) system. PMI's contract underwriting service was the first to be certified on the BlitzDocs platform, and is tightly integrated with this solution.

Area No. 3: Eliminate unnecessary work—Often, even after a lender has deployed a document-imaging solution, it continues executing many of the manual steps in the process that are no longer necessary. For example, in many cases a lender begins storing documents electronically yet continues to maintain paper files. It's a hard habit to break, but the duplicate data entry and archiving of paper is inefficient and unnecessary.

After we implemented our pmiPAPERLESS® product internally, we saw the productivity of our loan processors increase by 38 percent between 2004 and 2005. In the second year of implementation—2006—efficiency increased by 66 percent. Our pmiPAPERLESS product competes with similar solutions from our competitors that have some key differences but deliver similar benefits. When we implemented pmiPAPERLESS internally, it instantly eliminated 13 manual steps from our contract underwriting process and dramatically improved our response times. The logging of new loans coming in, the tracking of files through the process and the physical filing and off-site storage of loan documents all went away (as did the costs associated with each phase). As a result, we were far more efficient and responsive to our customers.

Area No. 4: Standardize processes—Loan originators with more than one physical location also have the opportunity to standardize their new processes across all of their physical locations and extend the benefits derived from the change. When new technology is added to the workplace, the efficiency it produces can be staggering. In that same vein, if one office is moving at digital speeds while others are not, inconsistencies begin to crop up and can severely curtail the benefits you're hoping to achieve.

Phase 2: Once the groundwork is in place

Once a lender has a paperless infrastructure in place, it becomes much easier to add pieces to the puzzle and further streamline workflow. There are three big areas to focus on once the groundwork has been completed.

Area No. 1: Bring electronic imaging in-house—There are some premise-based or license-based programs that enable lenders to bring their own electronic imaging in-house. Bringing the systems in-house provides better data management and makes it easier to generate and leverage paperless files in other business processes. Once the systems are functioning within your offices, it also becomes much easier to incorporate borrowers into the paperless model, something I'll address later on.

Area No. 2: Add integration and interfaces that enable electronic file-sharing—A big part of the mortgage origination process involves pulling in content from multiple sources and compiling it into a single file. Lenders can easily implement technology that allows them to collect everything from credit reports to property appraisals in a single digital location. Lenders are often surprised to learn the vendors they work with for appraisals, credit reporting and so on are set up and ready to issue the necessary documentation to them electronically and share it virtually in a single digital repository.

Area No. 3: Incorporate the consumer into the process—In the high-tech world we live in, where borrowers can send a letter, watch a movie or find a spouse with the click of a mouse, it's unreasonable to expect them to gleefully swing by their lender's office during their lunch break to drop off a document. Very often, a borrower is able—and actually prefers—to work with electronic documents such as e-mails and PDFs. When appropriate, lenders can expedite the origination process by getting their customers involved in the process and encouraging them to provide electronic documentation of necessary items such as income, debt and savings levels.

Our customers who have migrated to a completely paperless model tell us their customers have fewer questions, make fewer calls inquiring about the status of their loans and are generally pleased with the speed of service they receive.

Phase 3: Optimization

A lender ready for phase 3 has completed the hard work of

Tangible Security in a Virtual World

The PMI Group, Walnut Creek, California, is not a security company, but our customers ask us about security when we talk with them about migrating to paperless systems.

Many take comfort in knowing that they have physical copies of loan applications somewhere, just in case. Today, however, electronic files are more secure than paper files, which can become a liability to companies due to the cost of storage and the risk of loss during an accident or emergency. Moreover, electronic data can secure your business's ability to function during times of crisis.

As part of our business-continuity planning, PMI revised its view of data security, placing a heavy focus on user authentication to be certain we could reroute work to alternate locations if a fire or hurricane closed an office, or if employees had to work at home due to a pandemic event.

Online user authentication: Any online services you offer customers or employees must have the ability to verify the identity of a user before he or she is allowed to conduct business on a secure network. Single sign-on passwords, public key infrastructures (PKIs) and biometrics are among the options available to strengthen authentication.

The optimal solution, which PMI has adopted for its remote access, is called multi-factor authentication. Multi-factor authentication requires multiple authentication measures, such as a single sign-on password coupled with a numeric or biometric token that must be kept separate from the computer. It authenticates the user in an online environment, making it difficult for a customer to claim fraud or for a hacker to steal private information. It also provides security by helping to prevent repudiation—when customers, employees or partners transact business with you online and later deny having originated a transaction or accessed restricted data.

Virtual offices: When the fires ravaged Southern California in October 2007, businesses with off-site data centers were in a better position to continue serving customers and generating revenue because of their access to electronic files. Backing up data and image files on redundant storage systems and offline storage devices located in geographically diverse locations helps ensure your business' ability to function in a crisis.

PMI's files are backed up in this fashion, and when hurricanes closed our Florida offices in 2004 and kept our employees at home, our workflow system enabled us to reroute work to employees in other locations, and our customers did not experience a lag in service.

In the digital world, security does not end at a vault door or a computer firewall. The companies that have adopted modern security systems will be best situated to assess new threats, adopt new solutions and continue to service the needs of their customers and partners.

upgrading its technology infrastructure and is ready for optimization. The benefits that come from automating your origination process are innumerable. But the benefits realized from optimizing those systems will separate the lenders that are excelling in the digital world from those simply struggling to keep up. In the optimization phase, a lender needs to be focused on innovation in the following three areas.

Area No. 1: Leverage your knowledge base—Imagine how it would impact your business if your sales force were notified automatically when customers needed to refinance their home loan, transfer balances on their credit cards or help their children apply for college loans. Lenders that have optimized their paperless systems have the ability to do that.

Once a lender upgrades to a paperless system, it has access to an enormous amount of data. For a business that has lived on paper files for decades, the idea of having mountains of data that can help segment, identify and target specific customers on demand can be staggering. The best way to manage and optimize that data is by implementing a customer relationship management (CRM) system.

CRM is a widely used IT term that refers to the way companies manage their relationships with customers. Off-the-shelf programs and customized CRM solutions are available from reputable vendors. These systems help a lender optimize the capture, storage and analysis of customer, vendor, partner and internal process information.

These are the essential systems that enable you to leverage technology and provide your customers with the products they need, when they need them. Mastering that ability is the foundation for building a lifelong relationship with customers in the digital age.

Area No. 2: Enhancing internal controls and information protection—Banks are famous for their security: large vaults with heavy doors that are nearly impossible to break through. This is the traditional view of security—that of a protective barrier that keeps the bad guys on the outside. But this type of security breaks down when the bad guys are already on the inside.

Fraud is everywhere, both internal and external. When the people you hire and entrust with your customers' information decide to violate that trust, it can cripple your business. The security options that you can implement are nearly endless, but it's a good idea to begin by focusing on data encryption, two-factor authentication for system access, and using a "time-out" function for remote access and mobile devices that requires users to re-authenticate after a short period of inactivity.

PMI has worked closely with our customers to ensure that we are meeting or exceeding guidelines for data security and the protection of non-public information. Electronic transactions are encrypted and conducted over secure, segmented networks. All of our laptops are also encrypted, and two-factor authentication—where one of the factors is provided by a device separate from the computer gaining access—is required for all remote access.

Area No. 3: Align with strategic business partners in the supply chain—Technology never stops advancing, which can be both a blessing and a curse. The benefit, of course, is that you'll have endless new opportunities to optimize and improve your systems. The curse is that you can never really stop.

While the idea of endless optimization may seem frightening, the biggest hurdle to overcome is getting a paperless model up and running, and achieving a basic level of competency. Once you've arrived, it becomes much easier to take advantage of new advances.

It is important to open an active dialogue with your vendors and business partners, such as mortgage insurance companies, credit agencies and appraisers that are typically on the leading edge of developing new solutions. It's in the best interest of these partners to continue to work and innovate with you so that your businesses can grow together.

A lender's level of competency dictates its ability to take optimal advantage of partners and the benefits they offer.

A lender's level of competency dictates its ability to take optimal advantage of these partners and the benefits they offer. Looking ahead, there are new products on the horizon that will further advance the use of information technology in the mortgage lending business. Lenders unable to progress with the latest advances in technology risk losing their customers to those that can.

Moving forward

I began this article by talking about people and the prevailing need to maintain a personal relationship with your customers. It may seem counterintuitive, then, to dive deeply into the ways that a lender can avoid ever having customers walk into its bank or branch office, but that is the reality of the digital world.

The easiest way for me to illustrate the point is to share a personal story.

I have a close friend living in the California Bay Area whose children and grandchildren all live back East. He is older and has some health problems, which makes it difficult for him to travel. In spite of these barriers, he tells me that he has an excellent relationship with his children and grandchildren because the entire family is very tech-savvy.

When they talk on the phone, they do so using their computer's built-in video systems—Webcams—so that they feel as if they're in the same room. He also sends and receives photos and letters via e-mail, and his eldest son maintains a family Web site where the latest family information is stored. My friend does manage to see his children and their families in person at least once a year, but his family's use of IT is what keeps the relationships healthy and strong.

Your customers are not all that different. The appropriate use of technology can close the distance between lenders and their customers, and enhance the personal connections that are vital to a healthy relationship. **MB**

Stanley M. Pachura is senior vice president, corporate systems, for the PMI Mortgage Insurance Co. in Walnut Creek, California. He can be reached at pmi@pmigroup.com.