

Creating the Optimum Mortgage Process



FINANCIAL SERVICES

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Leaders who are responsible for overseeing mortgage processes find themselves continually whipsawed between the challenge of meeting customer requirements and the necessity of meeting internal operating objectives.

Customers typically demand the best price for a mortgage, accurate documentation, and a timely closing. Throughout the process they want minimal paperwork and they expect to be kept informed along the way. At the same time, the internal requirements of the business include minimal costs, the fastest possible booking of loans, solid governance procedures, demonstrated management and operational controls, and the deployment of resources that can be scaled to accommodate market changes.

Process owners faced with these dual demands may be forgiven if they sometimes feel overwhelmed. Many continue to search for a silver bullet in the form of a magical piece of software that, at a stroke, might harmonize all of these conflicting needs. But if a process is defective to begin with, software succeeds only in automating those defects. What is required is not a particular piece of software – though software is certainly useful – but a *business* solution that harnesses some basic, traditional process improvement and problem-solving tools to satisfy the customer while simultaneously strengthening the bottom line.

As a result of long experience in process improvement and financial services, Six Sigma Qualtec has developed just such a proven approach to mortgage processing. Whether improving the process requires only incremental change or organizational transformation, SSQI's mortgage process solution helps streamline and standardize practices, maximize teamwork, and minimize errors to increase customer satisfaction while reducing operational expenditures and creating a framework for continual improvement. Process owners can deploy this solution quickly, confidently, and cost-effectively – and begin to reap the benefits immediately.

Overcoming Additional Obstacles to Improvement

The challenges of the mortgage process are exacerbated by two attitudes – one mistakenly optimistic and the other mistakenly pessimistic – that create additional obstacles to improvement. On the optimistic side, it is tempting to believe that we have more breathing room with customers because the demand for “faster” closings has diminished over the past few years – certainly since the re-fi boom. On the pessimistic side, many organizations, believing that they are unique, despair of finding an efficient, cost-effective, out-of-the-box solution to their challenges.

The grounds for optimism are shaky. Despite the lessened demand for faster closings, we are still not always able to meet the borrower's closing date. Moreover, though we have more time to complete the mortgage, we still face increased costs as a result of the inability to add and reduce staff in a flexible manner. And many organizations lack the requisite motivators to address other problems such as accuracy, timeliness, and governance. If we need confirmation that problems remain, we need only consider that we are still not highly regarded by borrowers, as evidenced by customer satisfaction levels, even though the pressure of the boom is over.

The grounds for pessimism are equally shaky. In almost every institution we visit we hear a similar refrain: “you don't understand; we are unique; we are different; we don't do that here.” But from our experience, in case after case, it is clear that most mortgage organizations are largely the same; their processes are very similar, and the differences are fairly minor. What this suggests is that far from requiring a time-consuming, costly customized solution to process improvement, most mortgage processing operations could greatly benefit from the rapid implementation of a proven mortgage process improvement solution that is easily adapted to their situation and aspirations.





Getting Started

Real improvement begins with a clear definition of the problem. Are you looking merely for automation technology changes or for genuine, sustainable process improvement? In our experience, only process change can be counted on to address the issues that cause the organization to fall short both with customers and with internal requirements. The question of technology should be addressed after a full analysis of the current process, enabling technology to be employed in a fully integrated, optimally improved process.

To help you arrive at that optimal process, SSQI's mortgage processing solution encompasses these critical steps:

Understand the current process: You should begin by mapping the current process – not as you wish it to be, but as it actually is. Begin with a high-level look at the flow of the process and then drill deeper, as necessary, to arrive at an accurate characterization of the process. It is impossible to improve a process that has not been fully characterized.

Define what is critical to your customer. It is possible – but pointless – to redesign your internal processes and never touch the real needs of the customer. There are many ways to uncover those needs – through surveys, call center results, focus groups, promotional campaigns – whatever means allow the voice of the customer to be heard. That doesn't mean remaking your processes with the customer only in mind. You must make sure that your customer-pleasing processes also meet the critical needs of your business. SSQI's solution provides a powerful means for harmonizing those sometimes competing voices.

Translate customer requirements into measurable characteristics of your processes. Once you understand customer requirements you must be able to measure the effectiveness and efficiency of your processes in fulfilling those requirements. These measures are often output metrics (Y's in Six Sigma speak). With this piece of analysis complete you are then able to answer a critical question: How close do our processes come to meeting customer requirements?

Quantify the impact of particular gaps in your processes in terms of the cost of poor quality (COPQ). For example, a mortgage lender whose customers want fast action on their applications might find that the process includes a high number of abandoned calls by customers, long delays in producing a quote that cause prospects to drop out, and numerous inaccurate credit reports. Our methodology includes powerful tools for analyzing each of those gaps and quantifying what that poor quality is costing the company in each case. This analysis gives you the knowledge you need to align the needs of the customer with the requirements of the business.

Improve – or redesign – the process. Now that you understand the gap between where the process is and what is required to achieve desired levels of performance you can begin to identify and implement the required changes in the process.

To identify improvements, our solution employs two of the most powerful methodologies available – Lean and Six Sigma. Lean's principles of waste reduction can be applied to obvious and easily corrected defects in the mortgage process, and produce early wins and often fund the entire improvement effort. Six Sigma's DMAIC methodology (Design, Measure, Analyze, Improve, Control) is employed to get at the root causes of variation – the gaps in performance – in the sub-processes that compose the overall mortgage process. By identifying, correcting, and controlling those root causes you solve the problem once and for all, instead of having the variation reappear or defects simply passed on to other steps in the process. Moreover, by using Lean to reduce waste at the outset you avoid the pitfall of reducing variation in an inherently wasteful process.



Generating Benefits for Leading Companies

Combining the waste-reduction capability of Lean with the DMAIC methodology of Six Sigma, our mortgage processing solution has helped mortgage processing organizations achieve incremental improvements as well as transformational change in their operations – both of which generate significant benefits.

For example, in a mortgage processing organization, Lean principles were employed to remove such non-value-added activities as multiple copies, scanning of unused documents, and multiple inspections and approvals. While none of these changes was dramatic, each reduced time and expense. Work flow analysis tools were also used change the sequence of underwriting, moving it to the beginning of the process, reducing processing time by 3 days, increasing “meeting closing date” indicators by 23 percent, and reducing cost-to-process by 13 percent.

Further, in areas such as submission quality, DMAIC methodology uncovered the root causes of accuracy problems at the initiation of the lending process. As a result, improved accuracy reduced the time to process by several days and the cost by 21 percent. Moreover, by fixing the entry to the process, the solution improved its subsequent steps.

For other leading lenders, our solution has produced such benefits as:

- Reducing inaccurate documents at closing from a rate of 13 percent to 1 percent, and making documents available five days earlier.
- Reducing overall cycle time of the mortgage process by eight days.
- Decreasing risks and costs by reducing variation in loan processing between different processing groups.
- Increasing opportunity for revenue generation by an average of 1.5 hours per day per sales rep by reducing the percentage of submittals with defects from 70 percent to 12 percent.

Clearly, even incremental improvements can generate enormous savings, greatly reduced cycle times, and increased customer satisfaction. Sometimes, however, when the process is not capable of generating necessary performance improvements and there are multiple improvement opportunities, a full process redesign is required. Once such redesign yielded over 25 substantive changes to the process and the supporting organization, yielding a 45 percent reduction in cost, nearly a 70 percent improvement in closing dates met, significant reductions in the number of touches of the loan, and a significant boost in customer satisfaction. All of those benefits were realized without any technology changes or expenditures. In fact, simple workflow tools and some automation in underwriting should yield another 12 percent reduction in cost.

Embracing Change

Sometimes redesign of the entire process may require significant organizational change. To achieve the full benefits of improvement, you may need to restaff, or reorganize or reskill your staff. For example, it may be desirable to move the individual mortgage processor from the back office to the “center office,” where he or she is accountable for customer contact. This is, of course, a significant change in the rep’s role, requiring an enhanced skill set, increased education, and greater accountability.

Such significant initiatives often require great courage on the part of leadership to embrace change, to have the courage of their convictions in seeking improvement, and to maintain confidence in the ability of their staffs to get the job done. Because many people are uncomfortable with change, front-line employees and their supervisors are likely to resist. Before embarking on such major changes, you can soften their impact on employees by first pursuing incremental changes, while maintaining your commitment to the goal of organizational transformation. But whether you are making incremental improvements, transformational change, or pursuing a middle course to ultimate transformation, SSQI’s mortgage process solution can provide you with the assessment tools and proven methodologies you need to achieve breakthrough performance.



Your Strategic Partner

Six Sigma Qualtec is a premier provider of process management and performance improvement consulting, training, and technology solutions that drive breakthrough growth, productivity and value for our clients.

We are unique in our ability to customize the integration of management disciplines to meet the industry-specific requirements of global leaders in financial services, natural resources, manufacturing, process and service industries.

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