The Mortgage Industry Rebounds

Mortgage Origination Estimates
Source: Mortgage Bankers Association

The chart shows the trend of mortgage originations from 2006 to 2012. The mortgage industry experienced a decline from 2006 to 2008, with a significant drop in 2008. However, there was a rebound in 2009 and 2010, followed by a gradual decline until 2012.
Mortgage technology implementation on the rise...

- Almost 1 in 5 lenders plan on implementing new LOS technology in the next 12 months
- Mortgage industry IT spending is expected to increase 20 percent in 2012

...but implementation risks abound

- 62 percent of IT projects fail to meet their schedules
- 49 percent suffer budget overruns
- 47 percent had higher-than-expected maintenance costs
- 41 percent failed to deliver the expected business value and ROI
Existing technology evaluation methodologies increase the risk of implementation failure

• Lenders tend to focus on **Features** not **Solutions**
• Features are prioritized **Subjectively** not **Objectively**
• Stakeholder input is typically gathered **top-down** versus **bottom-up**
• Evaluation focuses primarily on **Functionality** and **Utilization** is given less weight
Lenders need an objective evaluation approach

**Functionality Score**
- Identify necessary functionalities and verify whether vendor satisfies requirements
- Assign functionalities to EPA categories to determine LOS functional score

**Utilization Score**
- Percentage in the following areas:
  - Usability and customization capability
  - Performance and speed

**Total Cost Of Ownership**
- Calculate 3-year total cost of ownership
  - Licensing, managed service fees, implementation requirements
  - Hardware and infrastructure requirements
  - Custom development costs

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LendingQB
Winning the lending game
Utilization is often overlooked by lenders

Utilization is a factor of Performance & Scalability, Ability to Implement & Support Lender on an ongoing basis. Lenders should craft a series of questions for each area and then develop a score that would convert to a percent Utilization (i.e. Vendor Score /100)

**Implementation Track Record**
- Does the Vendor have any failed Implementations?
- What is the Vendor’s average implementation time frame? (Sourced from clients)
- Does the Vendor provide a project plan with clear roles, objectives and accountability assurances?

**On-going Support Capability**
- Review Vendor’s SLAs
- Check References for Client Support Experience
- Does Vendor have “rapid response” support options (i.e., chat support, text-based alerts)

**Customization Capability**
- What is the Vendor’s ability and willingness to customize to address specific lender’s business model needs?
- How frequent is release schedule?
- Will Vendor perform “off-release” updates if urgent?
- Ask for custom development case study references
The Enterprise Process Assessment (EPA) is an objective technology evaluation model

1. Review & understand lender’s workflow/business model
2. Gather issues identified by management
3. Conduct “bottom-up” survey for staff to elucidate workflow issues
   A. Time management
   B. Productivity improvement opportunities
4. Apply statistical analysis of survey responses
5. Compare survey results with management issues to identify any “hidden” issues
6. Utilize EPA findings to prioritize functional requirements and improvement opportunities
7. Develop objective technology evaluation model incorporating EPA prioritization into the model
The EPA reveals 5 major productivity bottlenecks

**GOING PAPERLESS IS A GOAL BUT IMAGING IS NOT THE SOLUTION**
- Lenders struggle with replacing paper because most electronic document systems do not resolve usability issues.

**REDUNDANT DATA ENTRY IS WASTEFUL**
- The lack of a single platform housed on a single database leads to unnecessary time manually entering data into separate platforms.

**RULES-BASED DECISIONING IS NOT UTILIZED EFFECTIVELY**
- Lenders fail to recognize that decisioning can be used at multiple stages to streamline critical processes such as compliance and underwriting.

**WORKFLOW AUTOMATION IS NOT UTILIZED EFFECTIVELY**
- Process bottlenecks occur because errors are not detected or addressed in a timely manner. Business rules and workflow automation memorializes procedures and prevent mistakes from occurring in the first place.

**EXCESSIVE MANUAL COMMUNICATION SLOWS DOWN WORKFLOW**
- Staff spend an inordinate amount of time emailing or calling to track tasks or verify information. Task integration or automated notification could be used to reduce the volume of manual communication.
Bottom-up analysis identifies Improvement area priorities

Lender A: 300 Units Per Month
Primary Improvement Opportunity: Implement single database platform to eliminate manual data entry

<table>
<thead>
<tr>
<th>CRITICAL DRIVER IMPACTED AREA</th>
<th>CURRENT</th>
<th>OPTIMAL</th>
<th>NON-PRODUCTIVE</th>
<th>% OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Manually entering/transferring data</td>
<td>267.41</td>
<td>184.87</td>
<td>82.54</td>
<td>7.12%</td>
</tr>
<tr>
<td>2. Resolving problems that should be avoided</td>
<td>176.55</td>
<td>118.22</td>
<td>58.33</td>
<td>5.03%</td>
</tr>
<tr>
<td>3. Handling Physical Documentation</td>
<td>158.85</td>
<td>103.92</td>
<td>54.93</td>
<td>4.74%</td>
</tr>
<tr>
<td>4. Phone call/e-mails to loan status updates</td>
<td>168.42</td>
<td>122.45</td>
<td>45.97</td>
<td>3.96%</td>
</tr>
<tr>
<td>5. Correcting errors/re-doing work</td>
<td>98.97</td>
<td>80.72</td>
<td>18.25</td>
<td>1.57%</td>
</tr>
<tr>
<td><strong>Total Time Spent on Productivity Bottlenecks</strong></td>
<td>870.2</td>
<td>610.18</td>
<td>260.02</td>
<td>22.42%</td>
</tr>
</tbody>
</table>

Key Issue for Lender A is spending too much time entering or re-entering data...

Lender B: 400 Units Per Month
Primary Improvement Opportunity: Implement workflow automation and better communication system

<table>
<thead>
<tr>
<th>CRITICAL DRIVER IMPACTED AREA</th>
<th>CURRENT</th>
<th>OPTIMAL</th>
<th>NON-PRODUCTIVE</th>
<th>% OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Resolving problems that should be avoided</td>
<td>180.38</td>
<td>111.1</td>
<td>69.28</td>
<td>7.91%</td>
</tr>
<tr>
<td>2. Phone call/e-mails to loan status updates</td>
<td>176.92</td>
<td>109.55</td>
<td>67.36</td>
<td>7.69%</td>
</tr>
<tr>
<td>3. Manually entering/transferring data</td>
<td>174.1</td>
<td>123.77</td>
<td>50.33</td>
<td>5.74%</td>
</tr>
<tr>
<td>4. Handling Physical Documentation</td>
<td>81.54</td>
<td>56.7</td>
<td>24.83</td>
<td>2.83%</td>
</tr>
<tr>
<td>5. Correcting errors/re-doing work</td>
<td>116.25</td>
<td>91.51</td>
<td>24.74</td>
<td>2.82%</td>
</tr>
<tr>
<td><strong>Total Time Spent on Productivity Bottlenecks</strong></td>
<td>729.19</td>
<td>492.63</td>
<td>236.54</td>
<td>26.99%</td>
</tr>
</tbody>
</table>

Lender B needs to address the lack of rules and communication functionality within their current platform.
EPA results are used to weight LOS functionality

The calculated functionality categories weights are used to objectively score RFP evaluation questions.

**Categorize RFP Functionality Questions into Functionality “Buckets”**

**Utilize findings of overall % improvements identified during the EPA Analysis for each Functionality “Bucket”**

**Divide the % improvement by the number of RFP questions in the functionality “bucket” to determine the scoring weight for each question.**

<table>
<thead>
<tr>
<th>CRITICAL DRIVER IMPACTED AREA</th>
<th>% OF TOTAL</th>
<th>NO. OF RFP CATEGORY QUESTIONS</th>
<th>WEIGHTED SCORE OF EACH QUESTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Resolving problems that should be avoided</td>
<td>7.91%</td>
<td>20</td>
<td>3.96</td>
</tr>
<tr>
<td>2. Phone call/e-mails to loan status updates</td>
<td>7.69%</td>
<td>10</td>
<td>7.69</td>
</tr>
<tr>
<td>3. Manually entering/transferring data</td>
<td>5.74%</td>
<td>15</td>
<td>3.83</td>
</tr>
<tr>
<td>4. Handling Physical Documentation</td>
<td>2.83%</td>
<td>10</td>
<td>2.83</td>
</tr>
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<td>2.82%</td>
<td>10</td>
<td>2.82</td>
</tr>
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Lender B Example: Based on the EPA findings, the lender can develop an RFP scoring rubric that more accurately reflects the impact of vendor functionality relative to their particular needs.
Leveraging EPA results to determine a quantifiable and objective score for each vendor

Example Using a Net Cost Benefit Per Loan Approach

<table>
<thead>
<tr>
<th></th>
<th>VENDOR A</th>
<th>VENDOR B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does vendor meet RFP requirements?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>LOS Functionality Score</td>
<td>200</td>
<td>310</td>
</tr>
<tr>
<td>LOS Utilization Score</td>
<td>90%</td>
<td>70%</td>
</tr>
<tr>
<td>Total LOS Score</td>
<td>180</td>
<td>217</td>
</tr>
<tr>
<td>Labor costs per loan</td>
<td>$1,250.00</td>
<td>$1,250.00</td>
</tr>
<tr>
<td>Technology costs per loan</td>
<td>$75.00</td>
<td>$75.00</td>
</tr>
<tr>
<td><strong>Net cost benefit per loan</strong></td>
<td><strong>$150.00</strong></td>
<td><strong>$196.25</strong></td>
</tr>
</tbody>
</table>

The difference between Vendor A and B is $46.25 per loan. At a volume of 200 loans per month choosing Vendor B amounts to an annual cost savings of $111,000 over Vendor A.

- The final vendor score is calculated in dollar savings per loan
- EPA results can be used to determine labor cost savings
- Provides lenders with a model to evaluate vendors using quantifiable comparison data
Additional EPA benefits: Lenders can compare resource allocation versus peers

Peer comparison helps identify where a lender has an inefficient workflow or lack of LOS functionality in gross minutes spent per loan:

<table>
<thead>
<tr>
<th>Minutes Spent per Loan</th>
<th>Average</th>
<th>Worst</th>
<th>Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Officer/Originator</td>
<td>252.32</td>
<td>338.00</td>
<td>165.53</td>
</tr>
<tr>
<td>Processor</td>
<td>278.18</td>
<td>318.75</td>
<td>237.60</td>
</tr>
<tr>
<td>Underwriter</td>
<td>147.50</td>
<td>241.67</td>
<td>92.33</td>
</tr>
<tr>
<td>Closing/Funding</td>
<td>128.33</td>
<td>226.33</td>
<td>53.67</td>
</tr>
<tr>
<td>Post Closing/QC</td>
<td>155.25</td>
<td>280.00</td>
<td>30.50</td>
</tr>
</tbody>
</table>
Additional EPA benefits: Lenders can compare resource allocation versus peers

EPA reveals that Lender A resources are concentrated in high labor cost areas

<table>
<thead>
<tr>
<th>Lender A</th>
<th>Originator 15%</th>
<th>Processor 20%</th>
<th>Underwriter 21%</th>
<th>Closing/Funding 20%</th>
<th>Post Closing/QC 24%</th>
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The EPA Summarizes Recommendations for the Lender

Sample EPA Solution Recommendation:

**Implement business rules to ensure accuracy and completeness of loan data.**

- Prevent originators from submitting loans to processors without proper/complete loan data (field level audit).
- Automated conditions/tasks that require originators to gather necessary documentation/complete process steps on certain loan types (i.e., cash-out refis)

**Seamless integration to provide feedback on loan process**

- Automated decisioning of investor/custom loan product overlays at the point of sale to prevent commitment of operational resources on loans that cannot be delivered/sold to secondary market.
- Real-time checks on loan data compliance to prevent spending additional resources to fix problems further down the origination process.
The Enterprise Process Assessment (EPA) is a technology evaluation model

Key findings of EPA:
- There are five major productivity bottleneck areas that Lenders can address via technology
- A productivity analysis approach prioritizes functional requirements and quantifies improvement opportunities

EPA results should be used to objectively “weight” Functionality requirements

Utilization Score should be developed for each vendor and incorporated into the overall evaluation scoring model

The best models will incorporate Functionality, Utilization and Cost into one overall score for each vendor
About LendingQB

Who We Are

— World Class Technology Company with Proven Success in Financial Services
— 100% Web-Based, End-to-End, Single Database LOS Platform

Why We Are Different

— Single database is the cornerstone of a comprehensive 5-layered approach to compliance
— True Managed Services Platform for both implementation and ongoing management
— Most Experienced SaaS Vendor with the most secure platform in the industry

How We Increase Lender’s Profit

— ROI-Focused approach for innovation and implementation
— Proven to dramatically improve productivity and lower lender’s cost per loan
— Managed Services SaaS Model Lowers Technology Ownership Costs

(888) 285-3912
www.lendingqb.com