



Cost Justifying Loan Origination IT Expenditures

JUST A COUPLE OF WEEKS AGO, I HAULED my family to the local title office to sign off on a 15-year fixed jumbo loan. It was my third no-cost refinance in less than 12 months, as my broker just loves to churn his customers. After a 15-minute wait in the lobby, the title rep finally came out and said, "We're sorry, Mr. Cooley, but we have no scheduled closing for you today." As my wife rolled her eyes, I demanded that we immediately call my broker. Sure enough, the broker's excuse was that the documents were delayed because of some last-minute unfulfilled condition. Of course, he apologized for not letting me know the closing was to be postponed. The lock was just about to expire, and although the market had moved lower, I never walked for a better rate elsewhere. This mistake moved the loan past the expiration date, and I was going to make sure my rate was lowered—by half a percent, no less.

Unfortunately, these communication mistakes are all too common in the industry. Too much information is still communicated by phone calls and manual tracking by loan processors and loan officers. The solution is so simple, and yet it defies us to this day. What I envision is a loan status screen inside the loan origination system (LOS) that is all-encompassing. Not only would it display all the loan detail that the mortgage company has obtained, but it would also contain every bit of detail from all the third-party vendors. The LOS would have real-time data exchange with every party involved with the loan, so that the following could be achieved.

Appraisal Company: Every step of the appraisal process would be communicated as it occurred. In addition, data from the appraisal—such as the appraised value—would post to the LOS the instant the appraiser updated his or her software. An estimated appraisal delivery date would also be posted. When the appraisal was completed, the informa-

tion would instantly be available to view by the LOS.

Title/Escrow Company: Again, each step would be tracked and communicated to the LOS. Lien information, property legal description, the prelim, estimated closing dates and more would all move back and forth in real time with the loan originator's LOS. The loan officer could know everything that the title office had completed.

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Wholesaler: In a brokered loan, the wholesaler's LOS and the broker's LOS would be linked in real time. If the interest rate didn't match, a big warning indicator would flash in each company's LOS. Each time an underwriter signed off on a condition, the broker would instantly know about it. Lock expiration dates would be checked, as well as all of the loan product details. Any change in the vital loan details by either party would send up a warning that there's a mismatch and, thus, something must be wrong.

Flood Insurance: The flood certificate should be posted and stored inside the LOS, and if there's a delay, the status screen should show such along with an estimated time of delivery.

Credit Report: While this interface is one of the few complete interfaces, there's still more that can be done. For example, if the particular debt is "corrected" by the credit reporting company,

it should be instantly updated in the LOS without the origination company having to actively request an updated report.

If all of this technology were in place, my broker would have known of a mismatch in the estimated closing date between the title company and his LOS. His LOS would also have told him that a condition was still outstanding by the wholesaler, and thus the closing couldn't take place. He claimed the wholesaler didn't properly communicate the "new" condition, but really, he and the industry just don't have the right communication systems in place. The LOS should have told the loan officer and loan processor of the impending problem. Ideally, it would have even communicated to me (as the borrower) general status information, including any scheduled closing date along with the address and a map to the closing table.

At April's Mortgage Bankers Association of America (MBA) National Secondary Market Conference in New York, Gabe Minton, MBA's vice president of industry technology, gave a speech about all the technology that's available to handle this sort of thing. He discussed extensible markup language (XML), SMART doc (securable, manageable, archivable, retrievable, transferable document) technology and the Mortgage Industry Standards Maintenance Organization's (MISMO's) standards. All of these technologies are available today and are perfectly suited to being used to build the system I describe here. In reality, this sort of system could have been built years ago, but both the LOS vendors and the third-party vendors just haven't put together what's needed. Once we are all tied together, the loan process will become far more efficient and we'll move from the constant flurry of phone calls in the loan process to a constant flurry of data being electronically communicated.

I've heard the arguments from the

information technology (IT) staffs that making these system changes are just too costly—it's easy to argue that you can't justify spending a lot of money just to save some rekeying of data. However, the real expenses are in reduced customer satisfaction, more errors and the costly scrambling by the staffs of these companies to solve last-minute problems. In my particular case, the wholesaler lost out on a highly profitable loan and, no doubt, the broker made less as well. In the end, I got a 5 ¹/₈th percent fixed-rate loan, which now appears to have been

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the very bottom of the market. While I'm happy with my loan, it sure was one costly mistake for the wholesaler and the broker who missed out.

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