The Art Of Processing A Loan.

Surveys being released at the NAMB convention will show that mortgage brokers have garnered a higher percentage of the loan origination market then ever before. Just what has allowed mortgage brokers to proliferate and dominate while the old traditional marketers have shrunk to a fraction of their heydays in the early 80's when brokers had less than 10% of the market.

I started in this industry in 1982 and have seen the brokers grow through the years and have studied the economics at play. One of the economic principles at work is that loan processing runs counter to the principles of economies of scale. The larger the processing staff becomes at one location the less efficient they become. Actually, I believe that the ideal number of processors in a given office would be from 2 to 8. When there is just one processor, they are not the most efficient because volume fluctuations don't allow for a change in the fixed expenses related to payroll, benefits, etc. When the processing staff size increases, the amount of additional management required increases without a corresponding increase in efficiency. In short, the cost per loan to process increases as processing staff size increases. This runs counter to conventional wisdom where economies of scale would dictate better efficiencies due to specialization of task. For a variety of reasons task specialization has proven ineffective.

It would appear that other large retail lenders have reached similar conclusions as most of them choose to have processing done in local branch offices rather than centralize all processing into large sweatshops of processors. While there are exceptions, almost all the large processing centers I've seen were not highly profitable. Beyond all this, I also believe brokers cut costs in many other ways to truly be the most efficient solution for originating loans.

So if the broker is most effective at loan processing why consider outsourcing the processing function to third parties. Putting aside the economies of scale consideration, there are new developments occurring that just might change this paradigm. Most brokers resist outsourcing the loan processing because of two major factors. The first is control and the second is access to information.

The Internet is changing many industries in dramatic ways. It just might be possible that the Internet could dramatically increase the use of processing services. The first common objective related to control can be overcome by allowing the broker to watch and direct every step of the loan process. A processing service that images the entire loan folder and allows the broker to view every page from the Web, solves this problem. The broker can control the steps being taken and check daily what work is being done on the loan. The entire loan file can be imaged which creates what I call the Virtual Loan Folder.

The second issue of information access is also overcome by a processing service that uses a Web site to present all the information. It's crucial that when the borrower calls and needs information or a status check, the broker must be able to pull up every possible detail by viewing a web site. This same site could also be used by any involved Realtor and by the borrower to get complete details and review status information. By allowing all appropriate parties access to all the information, there's a dramatic improvement in both efficiency and the level of service. In addition, because this information is accessed from any location with web access, the broker actually has greater access to every detail.

The Internet resolves these two issues nicely provided the processing service offers such a capability. While processing loans is becoming more streamlined it's also becoming more difficult to understand. A processor must know how to process a loan in so many different ways using so many different technologies such as automated underwriting systems. There are a lot of reasons that outsource processing services might just take off in their usage. Still, the biggest hurdle is whether such a service can actually be more cost effective than what the brokers can do today. This is the biggest hurdle to cross.

Few brokers actually calculate the cost to process a loan. This can be done by determining total costs and dividing it by the number of loans originated in a given time frame (usually the last six months). You must be sure to include costs such as salaries, bonuses, benefits, overtime, desks, copiers, PC's, supervision costs, software, floor space, utilities, etc. Most processing services charge $300-$500 per loan. Compare your true cost against that of processing services to determine if outsourcing this function might make sense for your company. It just might be that with the Internet, outsourcing the processing function could be the least cost method for everyone. Only time will tell.