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Mortgage Process Outsourcing: The Next Wave Towards Better Security

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Analysts are cautious when it comes to predicting the way forward for the mortgage industry as the sector has seen more than its share of surprises. Mortgage industry trends for this year point towards cautious optimism.

The fluctuations in the mortgage market have continued since 2007, when this sector triggered the U.S. financial crisis. According to Forbes, by early 2007, over 20 U.S. companies dealing in mortgages closed down. As the problem spread, sub-prime lending, which accounted for a fifth (USD 605 billion) of all new mortgages in 2006, almost came to a standstill. Since then, over 350 lenders in the U.S. have filed for bankruptcy, halted operations or sold out to bigger firms.

This year is expected to see mortgage rates going up, according to *BestCashCow.com* and *Credit.com*. Analysts believe that rates will hover around five percent in 2011 but are likely to go up to six percent by next year. Analysts also predict that the number of re-financing applications will drop below 40 percent due to the rising mortgage rates and shrinking number of qualified homeowners. The improvement in demand for mortgages will be slow due to slow economic growth and a lack of consumer confidence. Underwriting standards will continue to remain tight and it may take as long as 90 days to secure a mortgage and complete the entire process. Documentation and verification requirements will continue to make the process long and drawn-out. The current industry trend of lenders and banks being cautious about whom to lend to, will increase.

Impact of the U.S. Financial Crisis on Outsourcing

The mortgage crisis did have an impact on the outsourcing industry. Small and pure mortgage service provider units were the most severely hit, as many large corporate houses filed for bankruptcy. This crisis first impacted the loan originations side of the business, and later shifted to the loan servicing side as the delinquency rate increased.

The mortgage crisis has given rise to the following trends: Default management, foreclosures and collections. These trends are driving loan modifications and there has been increased focus on other loss mitigation options. With foreclosure rates on a high, the U.S. government is looking at loan modification as a solution to stop foreclosure.

Loan modification is a compromise between a lender and a homeowner to alter the terms and conditions of an existing loan. Besides preserving home ownership, modifying loans favors borrowers with lower interest rates, reduced monthly payments and extended loan periods. Loan modification has two distinct segments:

- Loan modifications by banks (comparatively less stringent conditions)
- Home Affordable Modification Programs (HAMP), which are government-structured unveiled by the U.S. President in 2009

The banks' mortgage loan modifications outnumber HAMP mortgage loan modifications by almost four to one. The government-structured HAMP has more stringent guidelines and requires homeowners to stay in contact with the bank, faxing and re-faxing documents as per the bank's request, and with regular follow-ups. Loan modification has achieved the critical goal of providing immediate relief to struggling homeowners. It has helped transform the way the entire mortgage servicing industry operates. As per a report published by *Washington Times*, 20 months into the program, close to 1.4 million homeowners have entered into HAMP trials. Reports suggest that re-default rate of HAMP is much lower than that of historical private sector modifications. This indicates that the quality of modification has improved.

Home retention strategies have changed dramatically since the initiation of HAMP. As per the federal guidelines, a homeowner who is not qualifying for a HAMP has to be evaluated for alternative modification programs or other loss mitigation options before starting foreclosure proceedings. This opens up a lot of avenues for the outsourcing industry.

Getting Out of the Mortgage Trap: The Mortgage Process Outsourcing Solution

While the financial meltdown in the U.S. did impact many outsourcing firms, they focused on finding new opportunities in Mortgage Process Outsourcing (MPO). Business process outsourcing providers with the expertise in MPO helped shape this new trend. Some of the key advantages that MPO firms provide are given below:

- **Streamlining of lengthy and complicated processes:** With lenders in the U.S. going back to their borrowers with loan modification schemes to avoid foreclosures, lengthy and complicated processes required streamlining. Business Process Outsourcing (BPO) firms with an experience of mortgage loan verification are well-equipped to train its people to conduct these processes.
- **Ability to follow up on repayments and defaults:** This provides another opportunity for providers. MPO firms in India are able to examine, investigate and analyze all relevant documentation for claims and counter claims before passing them on to the legal teams in these organizations.
- **Use of integrated, automated systems:** The mortgage industry is undergoing a technological transition from the standard in-house loan processing arrangement to more integrated, automated processes and systems. Provider firms are well-equipped to handle and support this transition.
- **Increased efficiency and reduced costs:** MPO firms are able to reduce timelines and costs with regard to mortgage processing. These firms can also quickly scale operations during peak loan periods.

Utilizing the services of MPO firms allows mortgage companies in the U.S. to focus on new business development, marketing and loan funding, instead of the tedious task of mortgage processing.

The Way Forward for MPO Firms

Given the sensitivity and extreme caution with which mortgage firms in U.S. operate today, it is essential that MPO companies modify the way they work.

- While standardization and automation are necessary, MPO firms must look at *building a new layer of human judgment* over and above what a computer does. With more stringent lending procedures in place, companies must look at taking into account say, 20 relevant data points along with all the documentation being looked at in detail.
- Another change that the outsourcing sector is witnessing is the need for a presence in the U.S. (on-site models). True, most of the operations can be potentially done offshore, but today, many lenders insist on looking at photographs of houses from various angles in order to get a sense of value. This can only be done when the BPO firm has a presence in the U.S.
- There needs to be *intensive training of employees* since processes in the U.S. vary from state to state
- Over the next 18 months, Forrester expects suppliers to re-orient their platform BPO approach to *target industry-specific processes*.

WNS Capabilities in Mortgage Process Outsourcing

WNS, a leading BPO company, with expertise in mortgage operations, is uniquely suited to help mortgage services with next-generation process management and a progressive approach to transforming their businesses. WNS helps create sustainable business impact for clients through the innovative use of processes, people, platforms and partnerships. WNS brings significant cost savings through productivity enhancements and process improvements.

To ensure continuous improvement, WNS has deployed quality management tools, such as Failure Mode Effect Analysis (FMEA), to ensure every step of the process is evaluated for potential failure. With effective management of shifts and substantial process improvements, WNS is able to deliver a significant improvement in the turnaround time for clients in the mortgage industry.

WNS provides a true partnership model and differentiated services to cater to clients' need for flexibility and innovation, thereby allowing them to adapt to changing business and industry environments. A list of successfully executed processes across the stages of the mortgage cycle is given below:

- Lien Release
- Customer Service
- Investor / Trustee Reporting and Reconciliation
- New Loan Set-up
- Credit Reporting and Billing
- Flood Certification
- Investor Reporting
- Loan Modification
- Mailroom Operations
- Obtaining Tax Amounts Due on Real Estate
- Post Closing Follow-up
- Title Examination
- HUD Preparation and Follow-up
- Payoff
- Loan Amount Revision

With deep mortgage domain expertise, WNS has been catering to the needs of retail lenders, wholesale lenders, investors, lender services providers, servicers and private mortgage insurance companies. Our loans and mortgage process portfolio continues to evolve as we continually migrate and deliver higher value processes in this domain.

To learn more, please write to us at **info@wns.com**